U.S. DEPARTMENT OF ENERGY

WORKING CAPITAL FUND

Guidebook for Creating and Managing a Working Capital Fund Business

February 2003

WCF

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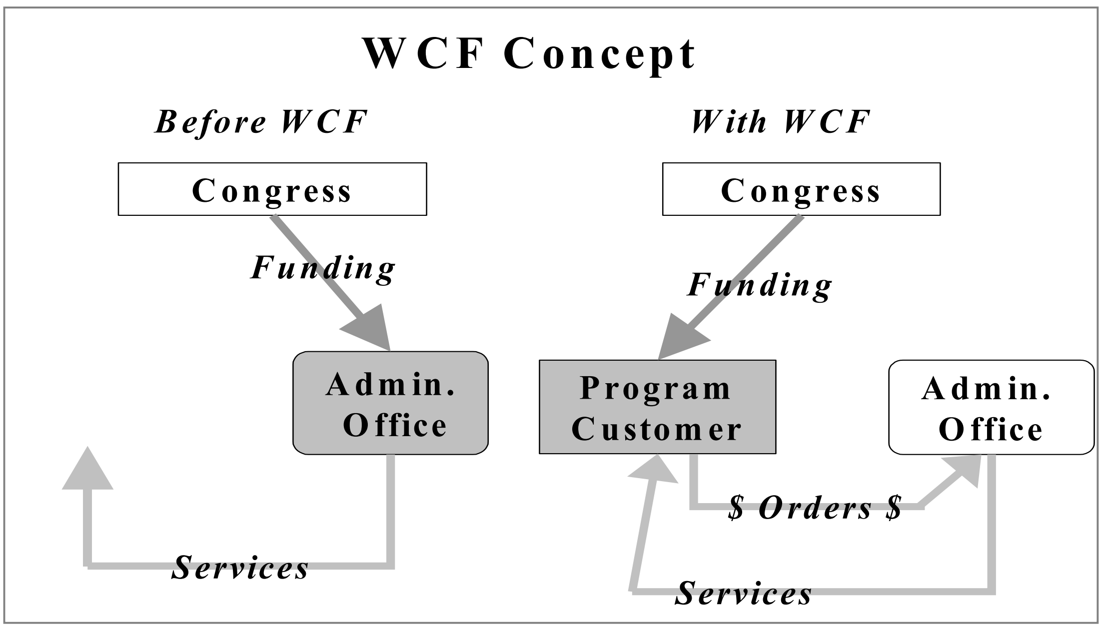
Summary

A "working capital fund" is a financial tool ("intra-agency revolving fund") for managing common administrative services within a Federal agency. Converting an activity from a conventional administrative framework, with direct funding and centralized management, to a working capital fund "business" will change the ways in which decisions are made, vesting more decision-making in customers organizations. (See the figure below). This conversion is intended to promote efficiency through customer incentives to conserve resources, fair and visible "full-cost" allocation of resources, and flexibility for supplier organizations to meet customer needs. Working capital funds are consistent with the President's Management Agenda and with Federal Accounting Standards Advisory Board criteria for managerial cost accounting.



The Department of Energy Working Capital Fund was authorized in the 1970's by the Energy Organization Act and the Department of Energy Organization Act. However, these authorities were not used until the Fund was created for FY 1997. Congress has endorsed the Fund and set forth a set of policy criteria in annual appropriation report language. During the first five years of Fund operation (FY 1997 through FY 2001), there have been a number of changes in business structure, but evidence indicates that the annual costs for "continuing business" activities of the Fund have been reduced by $8.3 million or 10% compared to spending during the four years before the Fund was created. This margin of savings grows to nearly $15 million/year if one adjusts for inflation. The Fund received a "Hammer" award in 1999.

The Secretary has the legal authority over the Fund, but has delegated administration of the Fund to the Director of Management, Budget and Evaluation/Chief Financial Officer (ME). The Deputy Secretary, operating under delegated authority as Chief Operating Officer, appoints a Working Capital Fund Board to approve Fund policies, and ME-1, as Board Chair, appoints the Fund Manager. The Board has also created a Dispute Resolution Council to deal with infrequent billing issues. This Fund structure supplements, rather than replaces, other formal structures, and parties have the option of appealing matters to the Deputy Secretary, though no such appeals have been made.

The Fund is currently composed of a dozen "business lines", each of which is responsible for operating on a "breakeven" basis, whereby business earnings are sufficient to cover business expenses. While the Fund uses business-style financial statements and terms, managers remain subject to normal governmental regulations is such areas as financial control, procurement, human resources, and the like. Distinctive financial management features of fund businesses include formal pricing policies, customer advance payments, monthly billings that create business earnings, quarterly cost accruals,, and business-type treatment of capital acquisitions and inventory transactions

Each quarter, the Fund Manager reviews each business and reports to the Board on the following:

- Whether current year earnings will cover business expenses;
- Whether customer organizations are paying their bills;
- Whether there have been any violations of administrative control of funds procedures;
- Whether budget estimates have been accurate;
- Whether pricing policy changes are needed; and
- Whether billing and other financial systems have produced accurate and timely information.

Both to help business managers identify issues and to help customer organizations plan budgets, the Board has asked each business line to prepare a five-year plan using the "Balanced Scorecard" concepts advanced in *Harvard Business Review* over the past decade. The "scorecard" framework urges managers to consider four distinct dimensions of "perspectives" for performance management:

- Customer Perspective
- Financial Perspective
- Learning and Growth Perspective
- Internal Business Process perspective.

While the scorecard was designed for certain types of private sector organizations, it has been used in the public sector as well, notably by the Department's procurement organizations. Of particular relevance to the planning of a new or expanded Working Capital Fund business are the following considerations:

<u>Customer Perspective:</u> What goods and services does the business produce for customers and what "pricing policy" options are available for Board consideration ?

<u>Financial Perspective:</u> What is the cost structure of the business and how do business expenses vary in relation to changes in customer demand? What savings could be effected, and how can

this cost structure be made compatible with the earnings structure associated with the pricing policy?

Learning and Growth: What organizational and employee development/training requirements are driven by creation of a new "business"? What information systems are needed to support periodic billing of customers and measurement of business success?

Internal Business Processes: What process improvements are needed and which have the highest payoff for customers? What can the business learn about practices in other Federal agencies, especially those with similar business lines being operated on a fee-for-service basis.

Conclusions

The changes required to become a Working Capital Fund business are not simple, because the Fund structure adds to management considerations – notably in terms of revenue generation and business-type accounting -- without relieving an activity from governmental regulation in such areas as finance, procurement and human resources. However, successful Working Capital Fund businesses have been able to use the market-like framework of the Fund and the enhanced information on customer priorities to operate efficiently, to introduce innovations, and to improve business performance. Fund business organizations and employees know that they are making value-added contributions to the Department's mission programs, and businesses have increased financial flexibility to make important changes in the quality and quantity of output in relation to expressed needs of their customers.

02/12/2003

Working Capital Fund
Guidebook for WCF Businesses

Introduction

The primary purpose of this guidebook is to assist managers and employees in planning for the transition from normal administrative operations to Working Capital Fund business activities. The guidebook can be used when a new business is created, when services are expanded, or when new employees are assigned to operate an existing business and need background on how a working capital fund operates. It can also be used to help managers decide whether an activity would best be managed as a Working Capital Fund "business" or in some other fashion.

The guidebook provides background on the Fund and on the current policies and procedures of the Department for operating the Fund, and it is organized as follows:

- Section I provides an overview of working capital funds, their purposes, and how they interact with the President's Management Agenda and related management initiatives;
- Section II provides background and history of the Department's Fund;
- Section III describes key features of the Fund and how activities administered through the Fund may differ from activities administered outside the Fund.
- Section IV outlines a transition approach for new or changing businesses and provides suggestions on developing a business plan.
- Section V describes some of the events in the WCF management cycle, including suggestions on how to make best use of available information and other resources.

Appendices provide, or point to, additional resources. The Working Capital Fund home page at http://www.ma.mbe.doe.gov/wcf/ has considerable information, including annual reports, budgets, financial procedures, and current business plans. The Fund staff is also available to answer questions. The general Fund telephone number is 586-3960, or you can contact Howard Borgstrom (586-5923), Bob Emond (586-2354) or Roscoe Harris (586-5527).

SECTION I

What is a Working Capital Fund?

A "working capital fund" is a financial tool for managing common administrative services within a Federal agency. Technically, it is an "intragovernmental revolving fund":

- "Intragovernmental" because its paying customers are other Federal programs and activities;
- "Revolving" because it is financed primarily from recurring revenues from customers, and its spending authority depends on, and adjusts to, those revenues; and
- "Fund" because it is a legal appropriation account in the U.S. Treasury.

There are working capital funds throughout the Federal Government, in nearly every major agency, and some are over 50 years old. While most funds are internal to their parent agencies, since the 1994 passage of the Government Management Reform Act, there have emerged "franchise funds" that sell services not only within their agencies but also to other Federal agencies.[1]

The term "common administrative services" is not presently defined in government-wide legislation; it has been taken from the legislative background of the DOE Working Capital Fund as outlined further in Section II. Indeed, there is currently no standard legislative framework for the working capital funds in Federal agencies, but there are common principles and objectives. The Department's use of "common administrative services" addresses those activities whose "output" becomes an "input" to other departmental organizations, rather than goods and services provided directly to the public. These types of operations are variously called "intermediate goods", "internal services", "shared services" or "support functions" by different management disciplines. They may be treated as "indirect costs" in some financial reports.

At the most generalized level, a working capital fund changes the flow of resources and decision-making concerning administrative activities, as portrayed in Figure A. Without a working capital fund (left-hand side), an administrative organization receives funding directly from the appropriations process, and managers of that organization decide what services will be provided in what quantities to which internal customers. With a working capital fund (right-hand side), the funds from the appropriation process are provided directly to the program customer organization, giving that organization a decision-making role as it "buys" goods and services from the administrative organization. The most fundamental change is thus in the locus of the decision-making (shaded boxes), shifting from the administrative organization to the customer.

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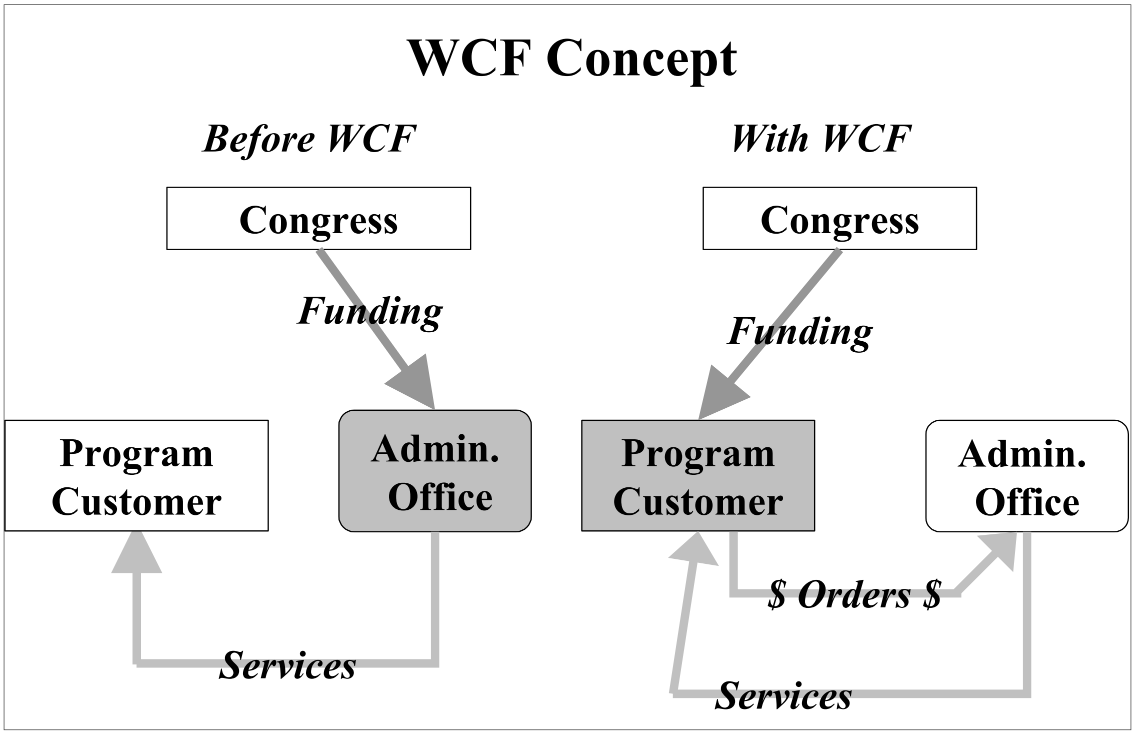
[1] For more background on the franchise funds, see Callahan, John J., Franchise Funds in the Federal Government: Ending the Monopoly in Service Provision, published by the PricewaterhouseCoopers Endowment for the Business of Government, 2001, and available at http://endowment.pwcglobal.com/publications

FIGURE A[2]



What are the Purposes of a Working Capital Fund?

The stated objectives of the Department of Energy Working Capital Fund are to:

- Improve the **efficiency** of administrative services by providing managers with the opportunity and responsibility to make choices on the amount, priority, and where possible, the sources of administrative services used by their programs;

- Ensure that program mission budgets include a **fair allocation** of the costs of common administrative services; and

- Expand **flexibility** to permit service providers to respond to customer needs.

Figure A above illustrates how the conversion of an administrative activity into a Fund business is expected to advance these objectives:

- Program customer officials can acquire a mix of administrative resources that more nearly satisfies mission needs;
- Program customer budgets include the allocated costs of administrative services; and

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[2] See the Defense Working Capital Fund web site http://www.dtic.mil/comptroller/icenter/dwcf for an expanded graphical display of the revolving fund concept as used within DOD.

- Administrative service managers are able to expand or contract their service levels to accommodate mission customer needs.

There are several interrelated policy and management logics for shifting decision-making as shown in Figure A. The terminology used varies among disciplines, but the combined literature is quite extensive.

Presidential Management Agenda

President Bush has called on Federal agencies to improve management, based on three principles.

"Government should be:

- Citizen centered, not bureaucracy centered;
- Results-oriented; and
- Market based, actively planning rather than stifling innovation through competition."[3]

The immediate customers of administrative organizations are not the general citizenry, but rather other Federal programs that in turn serve the general citizenry. However, shifting to a working capital fund approach indirectly supports the President's first principle by making those organizations that deliver services to the public more responsible for their use of administrative resources. To the extent that those "program" decision-makers are given flexibility through WCF pricing policies to make decisions on the quantity and quality of administrative services they will use to support their programs, they become more results oriented and responsible than when they simply received "free" services from administrative organizations (second principle). Further, when such program officials can make tradeoffs between services, to achieve a preferred mix, and can make decisions on the sources of those services, the patterns of administrative goods and services become more market-based (third principle).

The use of a working capital fund can also support agency responses to the five specific government-wide initiatives associated with the President's Management Agenda, most notably the initiatives regarding Competitive Sourcing and Budget and Performance Integration.

> **Competitive Sourcing**: Since the current DOE Working Capital Fund business cost structures exclude Federal employee salaries, the Fund is not a direct participant in the competitive sourcing process. However, decisions made by program managers on the use of Fund resources are analogous to "make-or-buy" decisions by private firms; managers use cost and performance information to decide whether an organization can be more efficient by providing a service for itself or acquiring the service from an outside source. Concurrently, internal suppliers become more cost conscious as they seek to attract internal customers, and agencies are beginning to compete with each other to deliver support services across agency lines. The Fund businesses sell services internally in the

[3] Executive Office of the President, Office of Management and Budget, The President's Management Agenda, 2001, page 3, at http://www.whitehouse.gov/omb/budget

Department and frequently also buy services from other agencies. The Fund has curtailed business segments that were not cost-competitive and has expanded businesses that have been competitive. Thus the premises underlying the Fund are closely associated with the market principles underlying the Competitive Sourcing process and related activities.

Budget and Performance Integration: The Fund increases the visibility of costs and ensures that program budgets more nearly reflect the full resources being used in their missions. In 2001 and 2002, the Office of Management and Budget circulated draft legislation that would require all Federal activities to be classified as "executive direction", "program" or "support", wherein all support functions would be financed through "intra-governmental support revolving funds" (ISRFs) that would be the successor to most of today's working capital funds and franchise funds. In Section 221.3 of OMB Circular A-11, OMB is proposing to implement some of these budgetary concepts through administrative action.[4] To the extent that transactions with the Fund ensure the inclusion of administrative costs in mission budgets, the Fund gives the Department a head start on complying with the "full cost" expectations of Section 221.3 and reduces the necessity for cost allocation in informational tables. "Full cost" concepts are discussed in more depth below.

Financial Management

Several different financial management disciplines, ranging from economic and budgetary analysis to financial accounting, support the key concepts of a working capital fund. The Federal Accounting Standards Advisory Board (FASAB), composed of the Office of Management and Budget (OMB), the General Accounting Office (GAO) and the Department of the Treasury, publishes Statements of Federal Financial Accounting Concepts and Standards , codifying many of the principles being used by agency managers. Volume I of the FASAB materials, published February 28, 1997, includes Statement 4, entitled "Managerial Cost Accounting Concepts and Standards. [5] Appendix A to this guidebook reprints the summary principles on managerial cost accounting.

A working capital fund supports these principles in a number of ways:

- A fund can be the basis, in whole or in part, for a *cost accounting* system.
- *Responsibility segments* are established by vesting responsibility for budgeting for administrative inputs to mission program managers seeking appropriations. Within the Department, program managers are responsible for budgeting for their organizations' Working Capital Fund requirements as part of their Program Direction budgets, just as they are responsible for formulating and executing budgets for Federal employee salaries.

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[4] The most recent version of OMB Circular A-11 can be found at http://www.whitehouse.gov/omb/circulars/index.html.
[5] This material can be found in its entirety at www.gao.gov . See especially pages 331 to 394 of the FASAB publication.

- *Full-cost* principles are supported by ensuring that the Department's budgetary and accounting documents regarding mission program activities reflect all the resources required to perform those missions, including inputs derived from administrative suppliers organized as fund businesses.[6]

- A fund business with a sound pricing policy supports the *costing methodology* principles by treating administrative resources as a direct cost of a mission program, to be considered by mission program managers in their decision-making, rather than as an indirect cost to be allocated by formula at or after the end of a cycle of activity.

One emerging issue in Federal financial management involves systems for effecting financial transactions between Federal agencies. On October 4, 2002, the Director of the Office of Management and Budget issued a new set of "business rules" for conduct of these interagency activities, to be effective January 1, 2003. These business rules are relevant to the Working Capital Fund in two ways:

- Much of the spending **from** the Fund involves payments to other Federal agencies, including the General Services Administration (building rental and telecommunications), the Government Printing Office (printed materials), and the Office of Personnel Management. The outsourcing of the Payroll function to DFAS will further expand these payments, and the Department will need to adhere to these business rules as a customer.

- The basic business principles for operating charge-back programs between Federal agencies are applicable to operation of charge-back programs within an agency, including:

  - Assignment of specific codes for organizational customers;
  - Documenting orders between organizations;
  - Linking payment transactions to orders;
  - Obligating funds before placement of orders;
  - Timely issuance of bills;
  - Monthly status reports on use of advances;
  - Prompt dispute resolution;
  - Consistent accounting treatment by the buyer and the seller at the end of the fiscal year.

Many of the financial practices of the Fund have been developed to address, albeit in an intra-agency context, the issues OMB is addressing in inter-agency transactions. As discussed in more depth in the Financial Policies and Procedures section of the Working Capital Fund "Blue Book", the Fund emphasizes (i) the need to ensure, in advance, that customer organizations know the costs and other consequences of their service requests; (ii) the value of timely and accurate billing information; (iii) the consistency of Fund accounts with customer accounts

[6] At this writing, the Department is operating under appropriation subcommittee language that precludes paying Federal employee salaries from the Fund. Accordingly, the Department is subsidizing the activities of the Fund because the parent organizations of the businesses, rather than the customers, pay the costs of Federal employee salaries and related expenses.

within the DISCAS system; and (iv) opportunities for customers to challenge costs incurred and obtain resolution of their concerns.

Working capital fund administration can be complex, and the mere existence of a fund does not guarantee that these objectives are met. As explained in the material referred to earlier (see selected materials at Appendix B) on the Defense Working Capital Fund, " The Defense Working Capital Fund itself does not save DoD money. Instead, it increases COST VISIBILITY, giving managers the authority and the flexibility to control costs, promote efficiencies, and make more informed budgetary decisions."[7] Like other systems for producing information and allocating responsibility, the effectiveness of a working capital fund is ultimately affected by the willingness and ability of managers to use the new information to make sound decisions.

Performance Measurement for Internal Services

The May 22, 2002 memorandum from the Director of the Office of Management, Budget and Evaluation/Chief Financial Officer provides guidance on the inclusion of performance measures in the Department's budget documents. Attachment A to that memorandum (replicated below) provides a model for a "fully integrated goal structure" linking the performance of DOE organizations to the outcome-oriented "strategic goals" of the Department.

Administrative, or support, organizations sometimes find it difficult to locate themselves in the logical mapping of the Department's performance, because the outputs of support organizations typically do not result in direct benefits to U.S. citizens. [8] Rather, the outputs of support organizations become inputs to DOE mission organizations, equivalent in kind to the "resources" depicted at the bottom of the performance measurement pyramid. That is, the Department's strategic goals do not include getting a dial tone when a DOE phone is lifted or having a safe and efficient place to work. However, efficient and reliable support services become key ingredients in enabling the Department to achieve its direct missions and strategic goals.

Inclusion of an administrative activity in the Working Capital Fund underscores this support relationship by including the resources within the budgets of the mission organizations and allowing line managers to make appropriate tradeoffs among WCF support functions and between WCF functions and other inputs.

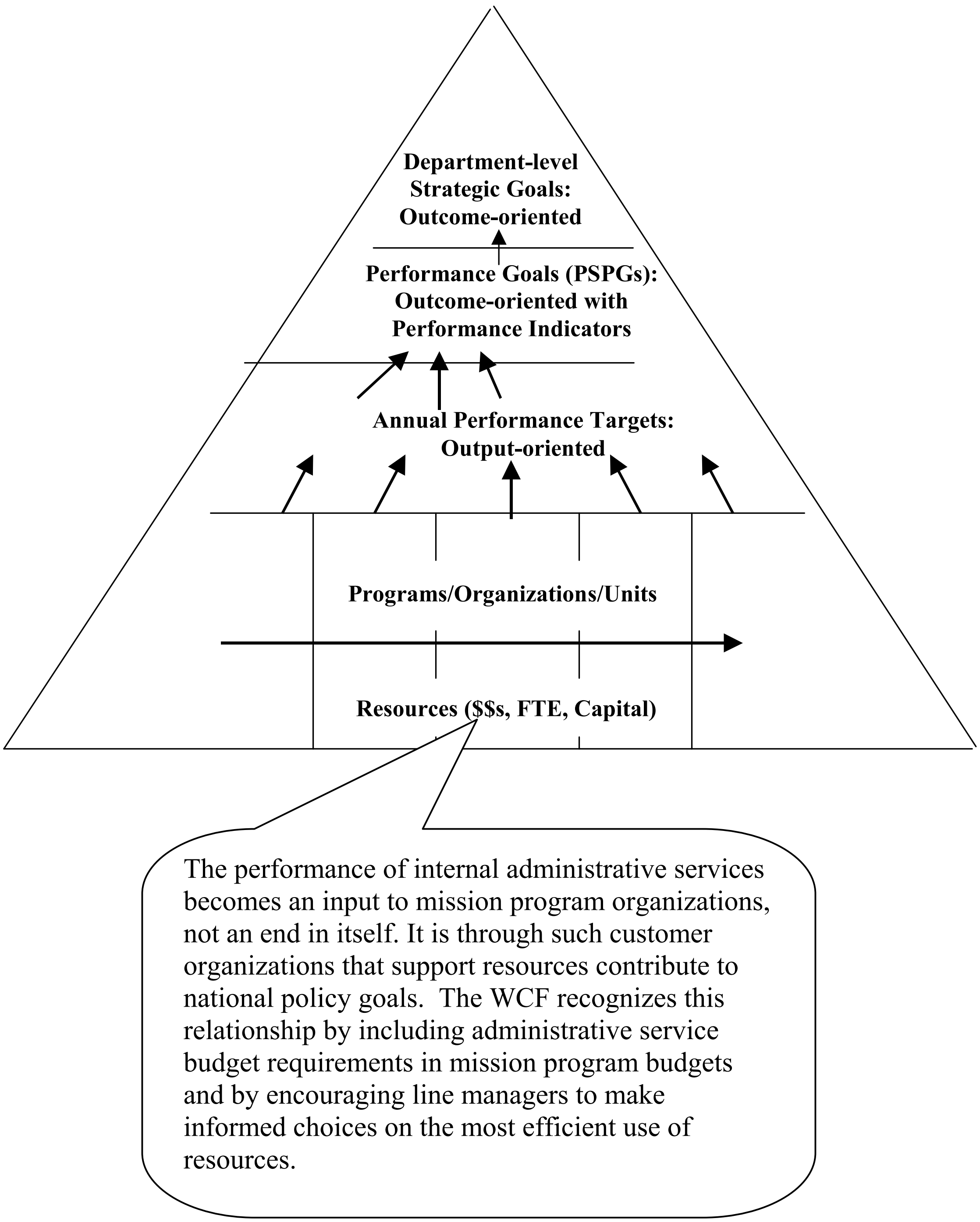
Even though WCF activities are not highlighted in the Department's documentation pursuant to the Government Performance Results Act (GPRA or "Results Act"), WCF businesses benefit from performance measurement. As discussed in more depth in Section IV, the Board has adopted the "Balanced Scorecard" methodology to foster performance management of the businesses it oversees.

[7] See http/www.dtic.mil/comptroller/icenter/dwcf/dwcfintro.htm.

[8] There are undoubtedly examples involving direct benefits by citizens from WCF-administered functions, including receipt of DOE printed material and correspondence, incidental building use, and the like. However, these are minor exceptions to the general principle that WCF activities exist because of DOE program missions, and do not constitute departmental missions by themselves.

Connecting Performance Measurement: A Fully Integrated Goal Structure

The pyramid below illustrates the relationship between levels of performance measurement. Each Department-level strategic goal has at least one related outcome-oriented performance goal, and at least one (and usually many) output-oriented annual performance targets.



Alternatives to a Working Capital Fund

In the Department of Energy context, there are relatively few transactions that could be performed through a working capital fund that could not, in theory, be performed outside a working capital fund. Unlike many other Federal agencies, the Department typically receives "no-year" appropriations, so the authority to obligate funds does not typically expire at the end of a fiscal year. Also, the Department has special authorities that permit receipt and obligation of funding for cost-reimbursable activities at national laboratories. For some agencies with annual appropriations, preservation of such obligation authority is accomplished in part through use of working capital funds.

There are several non-WCF methods used within the Department that advance objectives similar to those of the Fund. First, the Department uses a financial plan and allotment process that enables a program office to re-delegate its obligation authority to a second organization. This second organization can receive such authority from multiple program offices and use its combined authority to acquire services from outside organizations. Formulae can be established to promote fair allocation of costs among the participating programs, and joint provision of such services may also promote efficiency. An example of this is the use of program funds on a formula basis for the provision of contract audit services to DOE from cognizant audit agencies such as the Defense Contract Audit Administration (DCAA) or the Department of Health and Human Services (HHS).

A second method is the joint funding of contracts by multiple program organizations. By memorandum, one organization can authorize a second organization to obligate ("direct cite") specific funds to a particular contract instrument. This is often used for task order contracts where a customer organization chooses to use specialized services for which another organization has already placed a basic contract. This method has been used increasingly in the information technology sector, including contracts awarded by or through the General Services Administration. By some measures, the business transactions that occur in the Department of Energy headquarters through this method are as large or larger than the transactions that occur through the Working Capital Fund.

A third approach involves use of the payroll system to charge some or all of the salaries and benefits of employees in one organization to the appropriations of a customer organization. This has been used within headquarters to provide administrative services to the RW organization, using Nuclear Waste Fund resources, but this method can only be used for allocating Federal salaries and benefits, which represent less than 10% of DOE expenditures.

A fourth approach is to decentralize funding and acquisition of an activity from a central service provider to program organizations. Over time, the Department has moved away from centralized funding and provision of training services, desktop IT equipment acquisition, and professional subscriptions, leaving program organizations to make their own decisions in these areas. The availability of credit card purchase methods has supported this decentralization.

A fifth approach is to distribute central services costs among appropriation accounts and authorize such distributed funds to be merged during budget execution. This method has been used by the Energy and Water Development appropriations subcommittees to ensure that national security budget categories reflect some of the costs of activities carried out by staff and support functions financed from the Departmental Administration account.

This guidebook does not cover the use of these alternatives, but it is important to recognize that the Fund is not the only way of pursuing allocative fairness and efficiency objectives. The Fund is structured to provide a flexible, market-like framework within which customers and suppliers can engage in recurring transactions and achieve economies-to-scale without certain of the recordkeeping and administrative requirements of these alternatives. While certain other alternatives tend to require advance knowledge of the preferred or optimal solution, the Fund provides an interactive framework in which customers and suppliers find solutions based on program needs and breakeven pricing policies.

Factors to be considered in selecting among financing alternatives include the following:

1. Is the activity in question a "common" service relevant to many of the Department's mission organizations, or is it a function relevant to only a few organizations?

2. Is the activity a more or less permanent function, rather than a one-time effort?

3. Is the activity large enough to warrant creation of special business systems?

4. Is the service provided derived primarily from contractors, rather than from Federal employees?

5. Does the activity itself add value to contractual ingredients, or is it simply a pass-through of contractual services to the customer organization? For example, the Building Occupancy business in the Fund acquires utilities, supplies, and services, but it sells a further commodity – space. This contrasts with instances in which multiple program offices use a single support service contractor to provide specialized services that can be defined in separate task orders.

6. Should the activity give continuing choices to customer organizations, requiring that they have access to information on their use of services (rather than an activity that reflects a budget "tax" on the customer that is not affected by actual usage)?

Affirmative responses to these questions tend to favor consideration for inclusion of an activity as a new Fund business, or as a segment of an existing business. However, as discussed in Sections III-V, inclusion of an activity in the Fund requires certain additional information systems and managerial attention, so careful planning is needed in deciding whether the Department will benefit from inclusion of an activity in the Fund.

SECTION II

The Department of Energy Working Capital Fund

A Short History

When the Department was created in the late 1970's, the DOE Organization Act specifically authorized the Secretary to create a Working Capital Fund [9] "for expenses necessary for the maintenance and operation of such common administrative *services as he shall find to be desirable in the interests of economy and efficiency …"* (emphasis added). This authority was not used by the Department for nearly 20 years.

In late calendar 1995, three events combined to renew the Department's interest in a working capital fund:

- The Assistant General Counsel for General Law produced a legal opinion dated September 21, 1995 that discussed the legislation of the 1970's and concluded that "a working capital fund can be established without further congressional action."

- Following the change in party control of the House of Representatives in the 1994 elections, Congress rescinded a portion of the FY 1995 Departmental Administration appropriation, causing the main elements of the staff offices, notably the Assistant Secretary for Human Resources and Administration, to curtail contractual spending on essentially an emergency basis. Financial managers discovered that much contractual spending was fixed and/or uncontrollable in the short-term, such as payments of rent, long distance telephone charges and the like. There followed a disproportionate reduction in discretionary purchases (office supplies, mail service, and the like). Yet, because of concern over the potential for violation of "augmentation of appropriation" budget principles, mission programs were precluded from using available funds to acquire high priority administrative services that had previously been provided at no cost from the Departmental Administration appropriation.

- During calendar 1995, a series of management studies had been undertaken, termed the "Strategic Alignment Initiative" by then-Secretary O'Leary. One study addressed the creation of an Administrative Services Center, and while senior management eventually decided against implementing such a Center, the study process yielded considerable information on the scope, financing, and governance of administrative services in the Department.

In late calendar 1995, the Assistant Secretary for Human Resources and Administration (HR&A) and the Chief Financial Officer (CFO) commissioned a joint study that resulted in the November 27, 1995 approval by Deputy Secretary Charles Curtis of the Fund. Changes were made to the FY 1997 budget to institute the Fund, including a major reduction in the FY 1997 budget for the Departmental Administration Account and a corresponding series of

[9] See Section 653 of the Department of Energy Organization Act, 42 U.S.C. 7263 and a predecessor law, Section 105(g) of the 1974 Energy Reorganization Act, 42 U.S.C. 5815(g).

increases in the program direction accounts of customer organizations. The affected appropriation subcommittees were provided with background briefings, and the Energy and Water Development (EWD) subcommittee in the House included specific language endorsing the Fund and outlining congressional expectations.[10] Concurrently, the Working Capital Fund Board, chartered by the Deputy Secretary in April 1996, met to develop specific plans for the business activities included in the Fund.

While there have been a number of changes in the individual businesses in the Fund (see Appendix C for more details), the basic structure and objectives of the Fund have remained relatively constant.

Has the Fund Been Successful?

Following five full years of operation (FY 1997 through FY2001) Fund management produced a report that demonstrated that, for "continuing businesses" (those that had not been changed markedly during the five years, the average annual costs during the five years after Fund creation were lower than the comparable spending levels during the four years prior to establishment of the Fund (FY 1993 to FY 1996).[11] Appendix D provides excerpts from this analysis. The Fund also received a "Hammer" award in 1999 due largely to demonstrated reductions in such real consumption variables as space, copies, telephone calls, and the like.

Were these net economic savings, or did benefits go down along with costs? It is not possible to answer this with certainty, because many other factors were also changing, including reductions in Headquarters staffing, technology developments, inflation, and the like. However, the weight of the evidence suggests two conclusions:

- Incentives work: When the prices that customers experienced went from zero to positive program costs, managers at all levels took actions to reduce consumption and to preserve budgets for priority purposes; and

- Business line managers have become increasingly adept at anticipating customer requirements and orienting activities to meet customer needs.

These successes have not occurred without hard work by both customers and business managers, and there have been some individual problem areas. However, the basic objectives of the Fund -- fair allocation, efficiency, and flexibility—appear to have been met.

Who is in Charge of the Working Capital Fund?

The authorizing legislation vested decision-making in the Secretary of Energy. The Fund is a formal, legal appropriation account in the Treasury, and the Secretary has delegated the administration of the Fund to the Director of the Office of Management, Budget and

[10] See House of Representatives Report 104-679, July 16, 1996, page 91.
[11] Parallel results were achieved when estimates for the sixth year of the Fund (FY 2002) were included, but the full benefit/cost analysis has not been rewritten to incorporate audited FY 2002 results.

Evaluation/Chief Financial Officer.[12] However, the Secretary has also delegated Chief Operating Officer authority to the Deputy Secretary.[13] In April 1996, a previous Deputy Secretary chartered a Working Capital Fund Board to perform three key functions:

- Designation of activities to be included in the Fund;
- Policies for establishing user charges for the Fund; and
- Establishment of overall financial policies for the Fund and customer feedback for the activities included in the Fund.

The charter notes that, "The Board is intended to supplement, not supplant, program management responsibilities of the Assistant Secretary for Human Resources and Administration and fiscal management responsibilities of the Chief Financial Officer.''[14] Board decisions can be appealed to the Deputy Secretary, by customers or by the officials responsible for operating the businesses, but the Board has typically operated by consensus. However, the Secretary and the Deputy Secretary have, on a limited number of occasions, given policy guidance to the Board. The current Board was appointed by Deputy Secretary Francis Blake on January 29, 2002.

Working Capital Fund Board, 2002
Management, Budget and Evaluation/CFO (Chair)
General Counsel
Chief Information Officer
National Nuclear Security Administration
Science
Energy Efficiency and Renewable Energy
Security Operations
Independent Oversight and Performance Assurance
Nuclear Energy, Science and Technology
Environment, Safety and Health
Environmental Management
Fossil Energy
Policy and International Affairs
Energy Information Administration

The Board has established a Dispute Resolution Council to make recommendations on billing issues that may arise between Fund businesses and customer organizations. The charter for the Dispute Resolution Council is set forth in Chapter 1 of the "Blue Book", the Working Capital Fund "Guide to Services, Policies, and Procedures," found on the WCF Home Page.

[12] See DOE Delegation Order No. 00-008.00, paragraph 1.28
[13] DOE Delegation Order No. 00-001.00, paragraph 1.1B
[14] These two offices have been subsequently renamed and combined as the Director, Office of Management, Budget and Evaluation/Chief Financial Officer. At the time of the charter, the Chief Information Officer also reported to the Assistant Secretary for Human Resources and Administration.

There are three executive functions performed in administration of the Fund, and the roles and responsibilities of these officials are also set forth in Chapter 1 of the Blue Book:

The Working Capital Fund Manager is appointed by the Working Capital Fund Board Chair and has overall responsibility for administering the Fund, including preparation of budgets and financial reports, preparation of monthly bills, implementing Administrative Control of Funds procedures including filing annual statements under the Federal Managers Financial Integrity Act (FMFIA), and responding to findings and recommendations of the Inspector General. The Fund Manager is responsible for convening Board "working groups" as needed to address emerging business problems and has unilateral authority to reduce prices in the event that excess cash balances are being accumulated. Only the Board can raise prices.

Each Business Line has at least one Business Line Manager appointed by the administrative organization performing the services. In some organizations, the Business Line Manager role has been divided between two parties:

> The Business Line Service Manager is responsible for service planning and delivery, including response to customer inquiries and cooperation with Board working groups;
>
> The Business Line Fund Manager is responsible for administrative control of funds, making financial projections, and submitting monthly bills to the Fund Manager.

Some organizations have merged these roles. Others have appointed a Business Line Fund Manager for more than one business, while maintaining separate Business Line Service Managers for each business.

SECTION III

Key Features of the Working Capital Fund

What is NOT Different?

Most of this section is devoted to describing practices and features of the Fund organization that make managing a Fund business different from normal management of administrative programs in DOE Headquarters. However, it is important at the outset to emphasize that placement of an activity in the Fund does not relieve managers from any departmental or Federal Government policies and procedures, including, but not limited to, the following:

- Financial control and accountability: While, as discussed further below, the sources of business spending authority are different for Fund businesses, all provisions of general appropriations laws, including the Antideficiency Act and procedures for administrative control of funds remain the same. Any obligation must be supported by the availability of funds, as recognized in the Department's DISCAS and other funds control systems.

- Procurement: Fund businesses operate under the same procurement guidelines and procedures as all other DOE organizations. Among other things, a Fund business is subject to the authority of a DOE contracting officer, credit card procedures and restrictions, criteria for appointing Contracting Officer Representatives, the DEAR regulations as applicable, the Competition in Contracting Act, the Prompt Payment Act, the Economy Act, and any other policies and procedures applicable to the Department's transactions with the private sector or other Federal agencies.[15]

- Human Resources: Whether or not the Department eventually includes Federal employee salaries in the Fund, the participation of a DOE employee in a Fund business does not alter any of the basic rules for personnel management, including the applicability of the provisions of the Collective Bargaining Agreement. All equal employment opportunity, occupational safety and health, and other legal and regulatory provisions affecting employees before entry into the Fund continue to be applicable while participating in a Fund business. Likewise, employees of Fund businesses are no different in terms of retirement eligibility, pay and benefits, and other conditions of Federal employment.

All other laws, regulations, and directives otherwise applicable to a Headquarters organization likewise continue to be applicable to a Working Capital Fund business. A business unit is expected to be both a "good Federal program" and a "good business", as discussed further below.

[15] The majority of the annual obligations of current Fund businesses are to other Federal agencies, notably the General Services Administration (building rent, phone services, etc.) the Government Printing Office, and the like.

So What IS Different?

The Fund is a financial tool, so most of the discussion in this section addresses the changes in financial management that occur if an activity becomes a Fund business. The major difference between an activity operated outside the Fund and a Fund business is that a Fund business depends on customer organization payments to finance its activities. The amount of such customer payments, in any year, will depend on the pricing policies enacted by the Board coupled with decisions made by customer organizations to adjust their consumption levels, to the extent permitted by the pricing policy.

This key difference is reflected, among other things, in specific congressional report language setting forth Congress' expectations on how the Fund should operate. Appendix E provides the full text of the FY 2002 House Energy and Water Development Bill report language covering the DOE Working Capital Fund. With relatively few changes, this language has been restated for six consecutive years.

Key Working Capital Fund concepts linked to the sources of funds for administrative operations are as follows:

Pricing Policy

A pricing policy is the linkage between the demand behavior of a customer organization and that customer's requirement to make payments into the Fund. Pricing policies are enacted by the Board and remain in effect until amended. While pricing policies take a number of different forms, depending on the business, they seek to achieve the same objectives as the Fund overall: fairness, efficiency, and flexibility. Pricing policies are used to forecast customer financial requirements, establish Fund and customer budgets, determine advance payment requirements, calculate customer bills, define information system requirements, and create incentives for customer and supplier organization behavior.

Appendix F summarizes Fund pricing policies at the start of FY 2003, and it illustrates the wide range of pricing policy practices in the current Fund. Ideally, a pricing policy gives the customer an incentive to save money for itself in such a way that the Department saves money overall. Supplies (Paper Clips) provides a prime example of this: if a program customer economizes in the use of office supplies, that customer thereby preserves its budget for other uses, and the Department reduces its total supply costs by a like amount. At the other end of the pricing policy spectrum, a program customer can reduce its immediate costs for telephone infrastructure by reducing the number of telephone connections for the organization's staff. However, since aggregate telephone infrastructure charges are relatively fixed in the near-term, the disconnection of the phone lines of a particular customer organization does not, of itself, save the Department any money. Other business pricing policies fall between these extremes.

Pricing policies should also clarify the extent to which a customer organization must aquire a given service through the Fund businesses. For example, at present, customers are required to use Fund businesses for Headquarters office space, printing, and mail, because these are services that the Department is required to acquire from the General Service Administration, the Government Printing Office, and the U.S. Postal Service, respectively. In other cases, such as Telephones, Payroll Processing, and Contract Closeout, the Department has chosen to maintain uniformity of services. In yet other cases, such as Supplies and Graphics, customers can and do acquire services outside the Fund.

Financial Accounting and Reporting

Because it is a reimbursable fund, the Fund uses appropriations as a source of its funding and requires an internal financial model to ensure the integrity for charges back to its program customer appropriation accounts. To conform to FASAB accounting policy the fund has an account structure consistent with DOE account structures (Budget and Reporting Codes) in addition to accounts to support an income statement, statement of net cash position, and a balance sheet.

In order to ensure financial integrity of each business, the Fund management analyzes each of these financial reports to assess Fund business operations. The following chart maps the impact of various transactions on each of these financial perspectives:

Sample Flow of Funds From Program Customer Accounts to WCF Business Accounts

Customer Budgetary Accounts	WCF Business Accounts	Income Statement	Cash	Balance Sheet
Obligation to WCF (creates Obligated but Uncosted Balance	(1) Customer Advance	No Impact	Increases cash balance	Increases business liability to customer/ Increases Cash Asset of business
No Impact	(2) Obligate Funds to Contract	No impact	No impact	No impact
No impact	(3) Perform Work and Incur Costs	Incur Cost	Decreases	Reduce Cash Asset
Incur Costs, reduce uncosted obligations	(4) Bill Customer	Earn Revenue	No Impact	Reduce Liability to Customer
Position at end of cycle:				
Uncosted Balances	Unobligated Customer Advances/ Uncosted Balances	Net Earnings	Net Position	Current Balances of Cash Assets and Liabilities to Customers

As illustrated in the table, some business transactions are relevant to certain accounts but not to others. That is why WCF business-type financial management supplements, but does not substitute for, normal Federal budgetary accounting and reporting.

Customer Advances

The obligation authority of any particular business line is allotted by the Fund Manager based on anticipated customer use of business line services for the year.[16] The Fund Manager derives this obligation authority from a combination of carryover unobligated balances in the Fund, when available, and customer obligations and payments into the Fund in advance of service delivery. Such advances, which are expressly authorized by law, are akin to Metro passenger payments into a Farecard machine. The passenger provides the cash to the machine, and hence to the Metro organization, but receives an asset in return – a farecard that allows the passenger to use the subway. The uncosted (unused) balances of customer obligations and payments into the Fund are thus equivalent to the outstanding balances on passenger farecards in Metro, constituting assets for the passengers but service liabilities for the subway system.

The implication for the WCF business is that even when obligation authority is available to finance the business, that authority constitutes a liability for the business – a requirement to deliver services to the paying customer at a level sufficient to liquidate the advance.

Earnings

Earnings are derived directly from billings to customer organizations, based in turn on customer consumption levels and on the specific pricing policies for each business line. The pricing policy for a business may include several different revenue items. For example, the monthly telephone bill contains local and long distance charges for usage in addition to the fixed costs associated with operating and maintaining the telephone switch. The Fund Manager then bills such amounts to the customer organization, and the business is said to have "earned" the revenue. This is the equivalent, using our Metro example, to the passenger having used the fare card to take one or more trips, causing the value of the trips to be deducted from the fare card asset.

Billing information is submitted monthly to the Fund Manager from each business, so each business organization is responsible for developing and maintaining information systems that collect and store data on customer consumption in relation to pricing policy variables. In some instances the fund bills customers at the beginning of the fiscal year, for example, Payroll. However, in most instances, the Fund bills customers monthly in relation to the consumption of goods and services. Pricing policies should be designed to limit the additional costs to the business for developing and maintaining customer billing systems.

[16] Early in the fiscal year, if customer appropriations have been delayed, the Fund businesses may be operating on restricted financing equivalent to a continuing resolution, so full annual allocations may not be available until toward the end of the first fiscal quarter.

There are some cases in which the pricing policy calls for a pass-through of actual business line costs to the customer. For example, the Telephone business passes through long-distance charges from its supplier to the program office customers. This means that the business line needs to be able to identify and sort its costs in terms of which of its customers is to receive the billing. When vendor invoices to the Fund business are delayed, customers need to be informed in the Fund Manager's billing memorandum of expected future charges that the customers should be prepared to incur. Indeed, in each monthly bill, the Fund Manager advises each customer of the anticipated level of total billings for the fiscal year.

These billings/earnings are the basis for the income statement for each business line. Earnings are a measure of program customer consumption choices, and, where customers are permitted to acquire services outside the Fund, earnings also measure market share and customer satisfaction.

Expenses – Quarterly Cost Accruals

While the business is earning revenue through providing services to customers, it is also incurring expenses. For most Fund businesses, these expenses are contractor charges for services, the cost of goods sold, or depreciation expenses (we will discuss capital purchases below). The challenge for Fund businesses is to price its goods and services in a manner that covers its business costs. This discussion is covered in Section IV B, which addresses the Financial Perspective of the Balanced Scorecard.

Most Federal managers are familiar with contractual costs based on the contractor invoices received and approved. Typically, a contractor invoice for Month 3 is received during Month 4 for approval by a Contracting Officers Representative, and then paid and recorded in DISCAS, possibly in Month 5. Where the Fund operations differ is that, on a quarterly basis, business line fund managers are expected to file accrual documentation with Headquarters accounting to reflect not only the contractor invoices that have been paid to date but also an estimate of the liabilities the government has incurred for services received from the contractor but not yet invoiced. That is, toward the end of Month 3, a business is expected to make a memorandum entry to reflect the contractor costs for month 3, even though an invoice has not been received or paid.[17]

Most Federal resource managers are used to making such accruals annually, toward the end of the fiscal year. In the Fund, businesses must make these accruals quarterly, to ensure that, at the end of the quarter, the Department's accounting system fairly reflects the profits and losses of each business for the quarter. The procedures associated with these quarterly financial reviews are discussed further below.

Capital Equipment

Because the Fund uses business-type financial statements in conjunction with quarterly reviews, some contractor charges do not fit the Fund's definition of expenses. If a business

[17] As discussed earlier, some pricing policies involve direct pass-through of contractor charges, in which case it becomes important for the accrual of costs to match customer billings – i.e. cover identical periods.

acquires a piece of capital equipment[18], the purchase payment is not treated as business expenditure in the month cash payment was made. Rather, it is treated as business expenditure over the time period (usually several years) during which the equipment is used to produce earnings. The Department's accountants follow FASAB rules to determine the useful life of capital items and depreciate these assets each month over the life of the asset. The Fund reflects a depreciation expense each month for qualified capital assets.

The following table shows how depreciation and capital acquisition transactions appear in the various reports of the Fund.

Depreciation/Capital Acquisitions:				
Customer Budgetary Accounts	WCF Business Accounts	Income Statement	Cash	Balance Sheet
Starting Position:				
No impact	No Impact	No Impact	No Impact	Fixed Asset Value in Fund
Use existing equipment:				
No Impact	Use equipment and incur depreciation expense	Incur expense	No impact	Reduce Asset Value
Buy new equipment:				
No impact	Obligate and Pay Funds to Equipment Vendor	No impact	Decrease cash availability	Reduce cash assets, increase fixed assets

As demonstrated from the table above, none of the capital transactions by the business line has, in and of itself, an impact on customer budgets. This illustrates that the customer is treating the business line as a vendor and is not affected by the internal operations of the business, including its capital replacement strategy.

Goods Sold From Inventory

A parallel example is that of material purchased for a sales inventory: the material is not recorded as a business expense when the material is delivered to DOE and entered into the inventory. Rather, when the material is removed from the inventory for use in generating revenue, the initial purchase cost is treated as a business expense. This draw down of inventory is measured by changes in inventory levels during the month or year in question,

[18] DOE accounting policies determine which equipment purchases are considered "capital" for purposes of accounting treatment.

adjusted for new purchases. The increase or decrease in inventory is identified each quarter and an adjustment to costs is recorded by the Capital Accounting Center at the same time accruals are recorded. As with capital equipment acquisitions, the customer accounts are unaffected by the inventory behavior of the business.

Inventory Transactions

Customer Budgetary Accounts	WCF Business Accounts	Income Statement	Cash	Balance Sheet
Starting Position:				
No impact	No impact	No impact	No impact	Inventory Asset
Use Existing Inventory				
No impact	No impact	Incur costs	No impact	Reduce Inventory Asset
Replace Inventory				
No impact	Obligate Funds to Vendor Contract	No impact	No impact	No impact
No impact	Incur Costs when delivered	No impact	Decrease Cash	Decrease Cash Asset/ Increase Inventory Asset

Budget Forecasting

During the Department's budget formulation process, the Fund provides program customers with advice on their expected use of Fund services during the fiscal year for which the budget is prepared. This advice is given on at least two occasions: (1) during May, in preparation for the Corporate Review Budget and (2) in December, for preparation of the Congressional Budget Request. If there have been major new developments, including changes in pricing policies, the Fund Manager may issue supplemental guidance for preparing the OMB request.

Customers are not required to incorporate the Fund Manager forecasts into their budget estimates. Indeed, customers are encouraged to review their consumption trends and establish their own plans for making the best use of their program direction resources. However, the Fund seeks to give the best possible forecasts to program offices as a starting point for their budget planning.

Quarterly Reviews

The mechanics of making data conversions from Federal budget and resource management concepts to business-type accounting concepts as discussed above may appear complicated at first, but help is available from the Fund Manager and staff, from the Capital Accounting Center and from other business line managers. Among other things, the Fund has developed

Excel templates for business line use in downloading accounting data onto spreadsheets that can be used on the desktop. The cardinal rule of Fund financial management throughout this process is, "Don't Fool Yourself." That is, managers need to use *all* the complementary forms of financial information to develop a full understanding of the economic patterns affecting business success, rather than focus on a single, potentially misleading, report or variable.

To help businesses from getting off track and to ensure appropriate oversight by the Fund Manager and the Board, the Fund established the practice of quarterly business reviews early in FY 1997. The requirement for these reviews was codified in Board financial procedures adopted in 1998 and included in the WCF "Blue Book". These procedures were adopted in part to address recommendations of the Inspector General following the initial audits of the Fund. While these quarterly reviews have become more routine as businesses and customers have more experience with the Fund, the initial reviews frequently uncovered major glitches that had to be addressed.

The early reviews were structured around a series of questions for each business, as shown in the text box below. Today, some of these questions are best answered at the Fund level, rather than the individual business line level, but the concepts all remain relevant.

Working Capital Fund Business Questions, 1997

Don't Fool Yourself!

1. Do earnings cover costs?
2. Are the budget forecasts accurate?
3. Are customers paying their advances on time?
4. Do financial processes create operational issues?
5. Is market share being sustained?
6. Are billings timely and accurate?
7. Do customers know what they are buying?
8. Are customer-level demand forecasts accurate?
9. Are there departmental efficiency gains?
10. Are business and financial information systems adequate?

Under the 1998 procedures adopted by the Board, the Fund Manager prepares a quarterly report, in concert with business line managers, covering the following topics, using standardized tables:

I. Relation of Earnings to Expenses

For each business line, and for the Fund overall, the cumulative earnings through the subject quarter are compared to the cumulative expenses. Variances of over $50,000 between earnings and expenses are discussed, and if a business has had two consecutive quarters of expenses in excess of earnings, the Fund Manager organizes a working group to bring recommendations to the Board.

II. Relation of Customer Payments to Anticipated Customer Billings

Each quarter, the Board receives a report on the collection of advances associated with each business line in relation to expected full-year billings. [19] Individual business lines are responsible for their earnings in relation to costs, but the Fund Manager and CFO officials, rather than individual businesses, are responsible for collecting advances.

III. Relation of Payments to Obligations by Business Line

Businesses can make government-style "obligations" on contracts in advance of earnings from customers. Indeed, the term working capital is used in the private sector to describe the ways in which a company needs to spend money in advance of sales, to acquire equipment, stock inventories, and the like. So, WCF business obligations in advance of earnings are not a problem per se, but, as noted above, each business is required to restrict its obligations to the funds made available through allotments from customer advances and/or prior year unobligated balances.

IV. Changes in Budget Estimates by Business Line and Customer.

Several times during the fiscal year cycle, the Fund provides customers with advice on the expected level of their use of Fund services, typically based on current consumption patterns. The Fund does not require program organizations to budget in the exact amount of these forecasts, since program office managers may change their priorities or know of pending requirements that would cause variances from the staff forecasts. Nonetheless, this budget forecasting service is an important aid for customers, and each quarter the Fund Manager assesses the accuracy of such forecasts.

V. Anticipated Need to Change Pricing Policies or Make Substantial Changes in Operating Levels

As a result of the quarterly business review, and using other information available, the Fund Manager should inform the Board of emerging problem areas. The Fund Manager is authorized to reduce prices, if the problem is that a business is too profitable; Board action is currently required to increase prices.

VI. Financial Management System Progress

The Fund is responsible for having timely and accurate information on both sides of the business process: (a) billings to customers and (b) expenses of businesses. The Fund uses the Department's DISCAS accounting system for both categories of

[19] The same data are presented on a customer-by-customer basis in monthly billing reports.

information, but DISCAS is supplemented by other systems. First, billings to customers derive from data submitted by business lines in carefully formatted templates into an MSAccess system maintained by the Fund Manager. A single bill is then issued to each customer on behalf of all businesses, and the resulting cost data are entered into DISCAS. The objective is to have accurate billing data entered into DISCAS by the fifth working day of the month following the month for which the bills are issued. It requires close cooperation between the business line staff and the Fund Manager to achieve this deadline, which has been met in every month since late 1999.

On the spending side, each business has a set of "B&R" codes for making obligations and recording costs. These are used in the same manner as normal DOE budget execution, but there are additional accounting entries for WCF businesses to address depreciation, capital expenses and inventory changes. Businesses can access their information directly in DISCAS or can use templates that have been developed for WCF business, to download data to desktop format.

These six major categories do not address all of the topics covered by the questions in the text box above, but they serve as a useful framework for monitoring the Fund as a whole. In the following section, we highlight some business planning methods that yield insights on other business topics.

SECTION IV

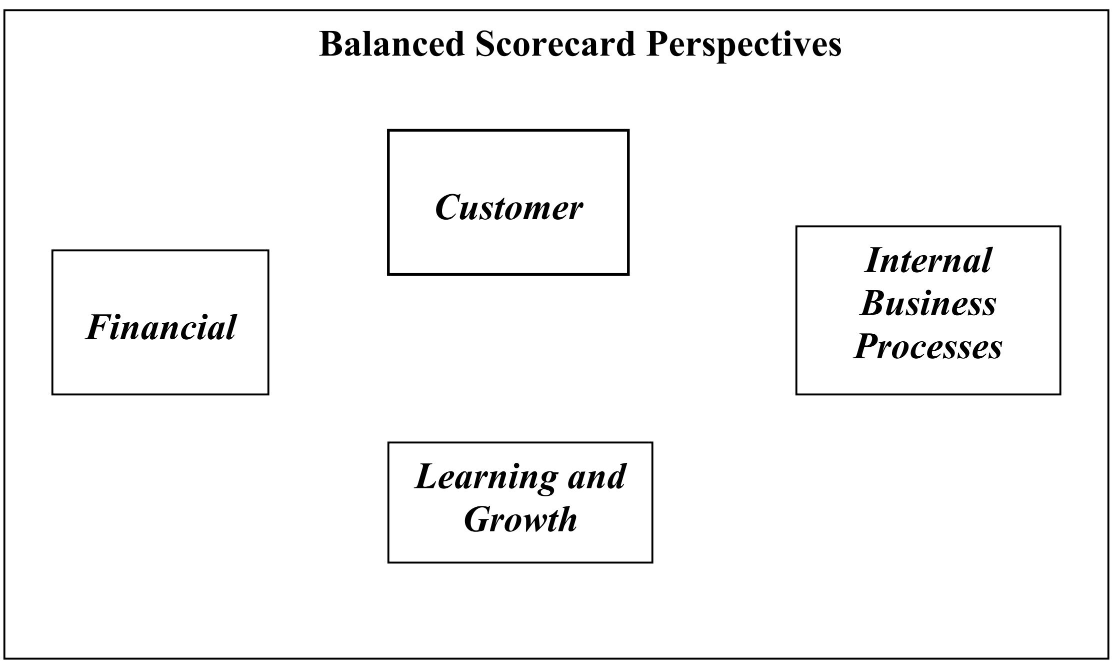
Working Capital Fund Business Planning

Working Capital Fund businesses are located within different administrative organizations and are subject to the planning and performance management procedures of their parent organizations. However, in an effort to improve understanding of longer-term issues that could affect the Fund, the Board asked each Fund business line in 2000 to develop a five-year plan using the "Balanced Scorecard" approach.[20] Current versions of those plans are available on the WCF Home Page.

The Scorecard was originally designed for private sector business units, to provide a more comprehensive performance measurement framework than that afforded by financial statements alone. The Scorecard has also been used extensively in parts of the Federal Government.[21]

The Balanced Scorecard model urges organizations to plan and manage with respect to four main dimensions, or "perspectives" as shown on Figure B.

FIGURE B



[20] The Balanced Scorecard framework was originally described by Robert S. Kaplan and David P. Norton in Harvard Business Review, January-February 1992. Kaplan and Norton have published several follow-on books and articles on the Scorecard concept.
[21] See especially the DOE Balanced Scorecard Home Page supported by the Office of Procurement and Financial Assistance Management, http://professionals.pr.doe.gov/ma5/MA-5Web.nsf/Business/Balanced+SCorecard

Appendix G provides a summary discussion of each of the four perspectives, taken from the Procurement and Assistance Management Home Page, and Appendix H provides excerpts from a Jupiter Corporation/Booz-Allen Hamilton guidebook provided to WCF businesses to support their preparation of business plans. The full guidebook appears on the WCF Home Page. Readers are urged to avail themselves of both sets of materials.

This section will focus on practical business planning issues that are particularly related to the **conversion** of an activity from a centrally funded administrative organization to a Working Capital Fund business**.** It is not an exhaustive treatment of all aspects of managing an organization through the Balanced Scorecard or any other performance management framework.

A. Customer Perspective

Over the past decade, there has been an increasing emphasis in public administration literature on the need to focus on *customer satisfaction* as a norm for government programs. The Administration refers to "citizen-centered" as a government management principle when addressing programs and practices that provide direct service to taxpayers. Typically, WCF businesses are one or more steps removed from the ultimate intended beneficiaries of DOE programs, because we provide outputs – goods and services—that become inputs to mission programs who in turn provide benefits to the general population. Thus the immediate customers of WCF businesses are the mission program offices in the Department as well as the other staff offices that support those missions.

<u>For a Working Capital Fund business, customer satisfaction is not simply a normative concept articulated in vision statements, but a very practical factor that drives resource planning and decision-making on a daily basis.</u> Customers are the sources of earnings that give the business the financial resources to acquire human, contractual, and other ingredients needed for success. Understanding what customers need and in what quantity and quality is the starting point for defining **pricing policies** that determine how the level of business income will relate to the level of business output.

As noted earlier, the WCF Board has adopted a variety of pricing policies for the current businesses, and there are cases in which there are multiple pricing policies applicable to different outputs of the same business. For Telephones, for example, there is both an availability charge, distributing infrastructure costs to programs based on the number of phone connections, and usage charges based on the actual telephone calls from each instrument. For the infrastructure element, individual program customers have some – but limited-- control over their costs, because they can determine which telephone connections are appropriate to their organization. However, in the aggregate, all customers will pay the Board-approved infrastructure charge because the per-line amount adjusts to collect the revenue required. Customers have much greater control over usage charges, because they can decide whether long-distance business should be conducted by face-to-face meetings, conference calls, electronic mail, or a combination of these methods. More spending on telephone calls may actually produce net savings because of foregone travel costs, but other communications media may also be more efficient and effective than conference calls.

Pricing policies can (and should) change over time, especially when an activity is first being converted to a Working Capital Fund business. Figure C provides one transition path for this conversion, illustrating three stages of a pricing policy (denoted A, B, and C) after a business is accepted into the Fund.

FIGURE C

WCF Pricing Policy Transition Stages				
	Before WCF	**With WCF**		
		Stage A	**Stage B**	**Stage C**
Who Pays	ME	Program Customer	Program Customer	Program Customer
Pricing Method	Direct Appropriation	Annual Allocation (e.g. infrastructure)	Output or Usage Based Retail Pricing	Output or Usage Based Retail Pricing
Supply Quantity	ME Decides	ME and WCF Board	Program Customer	Program Customer
Supply Source	ME Decides	ME Decides	ME Decides	Program Customer

Figure C is a different way of expressing the change depicted on Figure A – the shift in decision-making to expand customer choice and flexibility. As portrayed on the "Who Pays" line, the unambiguous feature of all pricing policies is that customer organizations (including staff offices and ME itself) become the sources of financing for the activity. The pricing method, however, may evolve from a fixed annual dollar allocation that is distributed among customers to a more usage-based, retail-level form of pricing. As discussed further under Financial Perspective below, the appropriate mix of these pricing methods is affected by the cost structure of the business.

Under supply quantity, there can be a shift over time between a central (ME, CIO, and/or Board) determination of quantity to a customer-driven decision. This is not necessarily an all-or-nothing difference: the current Fund has a Mail pricing policy that is based in part on the number of mail stops. Each Headquarters organization is required to pay for at least one official mail stop, but organizations can add mail stops or choose to do their own internal distribution among components.

The concept of giving customers the opportunity to select supply sources is one of the more controversial features of organizing in a business-like manner. At present, there is no standing requirement that a Fund business offer complete freedom to customers in terms of source of supply. Indeed, for certain goods and services like rent, telephones, and printing, there are standing requirements to use the Fund business, if for no other reason than the Fund itself faces a legislative or regulatory monopoly from other agency suppliers (GSA, GPO, etc.). However, as government-wide deregulation of certain monopolies advances, it is reasonably likely that some of the flexibility afforded by such deregulation will be passed to WCF customers. Since the creation of the Fund, customers have been authorized, subject to certain legislative restrictions, to acquire office supplies, subscriptions, and other goods and services from sources other than the Fund businesses. Further departmental deregulation is likely because of current Administration policies favoring competition, but management may also choose to maintain certain types of administrative monopolies for purpose of economies-to-scale (payroll operations, for example), standardization (stationary, etc.) or for security and related reasons.

As Appendix H indicates, the first steps in business planning involve defining what products and services are produced by the business and which customers want what **quantity** and quality. Ultimately, these product and service factors will not only drive costs, as discussed below, but also business earnings.

B. Financial Perspective

It is important to understand the full costs of the business activity and, equally important, how the level of costs is associated with the level of output of products and services. As of 2002, the Fund is operating under the congressional guidance (see Appendix E) that precludes the inclusion of Federal employee salaries and related expenses in the business costs paid from the Fund. Therefore, the only cost elements now in the Fund are for contractual services, so preparation of a cost analysis involves primarily a review of contractor activity.

In some cases, the scope of work of a particular contractor may be coterminous with the planned scope of the business line. This makes the cost analysis relatively straightforward, and transitioning to a Fund business is largely a matter of careful accrual of pre-Fund costs to define the uncosted obligation balances at the time of the creation of the new business. These balances can and should be transferred to the Fund to permit uninterrupted operation of the business.

In other cases, only part of a contractor scope of work will be associated with a particular business. In these cases, it may be well to consider restructuring future task orders to segregate WCF business costs from other contractor activities. Within DOE Headquarters, it is fairly common for a single task order contract to be used by multiple organizations, each with its own funding source. Sometimes, program office funding of tasks on the contract of an administrative office is incidental and unrelated to the creation of the Working Capital

Fund business. In those cases, care should be taken to maintain the separation of the tasks and the associated funding.

In other cases, the administrative office has effectively been collecting “user fees” from program customers through the joint funding of contractor activities. This practice is not new in the Department; it was used to finance computer acquisition and support in the 1980’s. However, with the secular decline in centralized funding for training, management studies, furniture, and the like, the use of “direct cites” for surrogate user fees for joint operations has become more prevalent. In such cases, the administrative organization planning a Fund business should analyze its current joint funding practices and, wherever possible, consolidate such functions, costs and revenues into the Fund business. Otherwise, it is likely that there will be confusion, duplication of billing efforts, and an increased risk of misinterpreting financial results.

Further, the business needs to consider its equipment, inventory, or other capital requirements. While major equipment purchases may be capitalized and thus not be reflected immediately as business expenses, such capital acquisitions need to be supported by appropriations, so businesses need the cash available to make such purchases. Other elements of cost that need to be considered include the following:

- Periodic license renewals ;
- Desktop equipment and software upgrades; and
- Costs that may be paid at present out of centralized budgets even though they are fully allocable to the business line.

If the current congressional cost restrictions are lifted in the future, businesses will need to do further analysis of salary and benefits requirements, travel, training, and other costs that are associated with the business, including payments to other Working Capital Fund businesses for space, phones, and the like.

It is especially important to have a clear understanding of how business costs are connected to business volume. When output increases, do costs increase? When output decreases, do costs decrease? Or, do costs remain substantially the same no matter how much customers use the service(s) provided by the business. Answering these questions is essential to development of a pricing policy that achieves the objectives of the Fund.

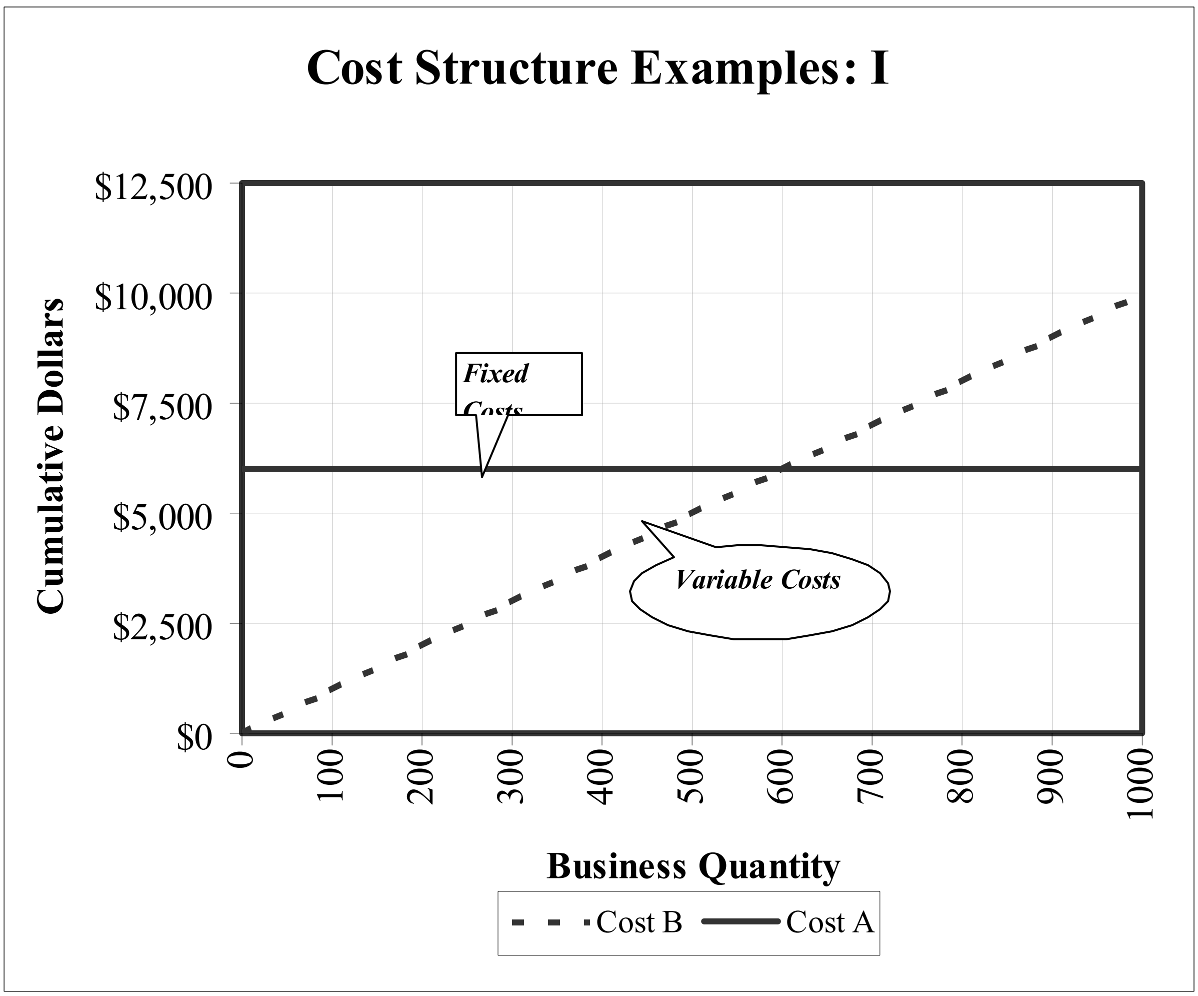
Figure D illustrates two very different cost functions. The horizontal axis measures units of output[22], and the vertical axis tracks the corresponding cumulative costs. For Function A, represented by the solid line, costs are **fixed** in the sense that they do not change based on the level of output. Specifically, in this hypothetical case, the unit spends $6000 no matter what the demand is for its services. For Function B, represented by the dotted line, costs are fully

[22] The term **output** can reflect a number of different measures. For some retail businesses, it might mean “sales” measured by dollar volume. For a manufacturing operation, it might mean the number of units produced, whereas a service organization could focus on the number of transactions. For an organization that produces multiple products or services, an analyst could either disaggregate the cost/output relationship and prepare an analysis for each part, or could devise some index of total output that weighted the output measures for each product or service.

variable: cumulative costs grow or shrink as output grows or shrinks. At 600 units of output, the cumulative costs are exactly $6000, the same as Function A. But, if output grows or shrinks from that level, so also do the cumulative costs.

Much of the literature on Activity Based Costing and other business methods focuses on identifying **average** costs per unit of output. Average cost information can be important but also misleading. In our example in Figure D, at 600 units of production, the average costs per unit are identical for both cost functions at $10 per unit. While this average cost is applicable under Function B to all levels of production, under Function A, this average cost is accurate only at a single level (600) of production. Beyond that production level, average costs decline, but at production below 600, average costs rise rapidly.

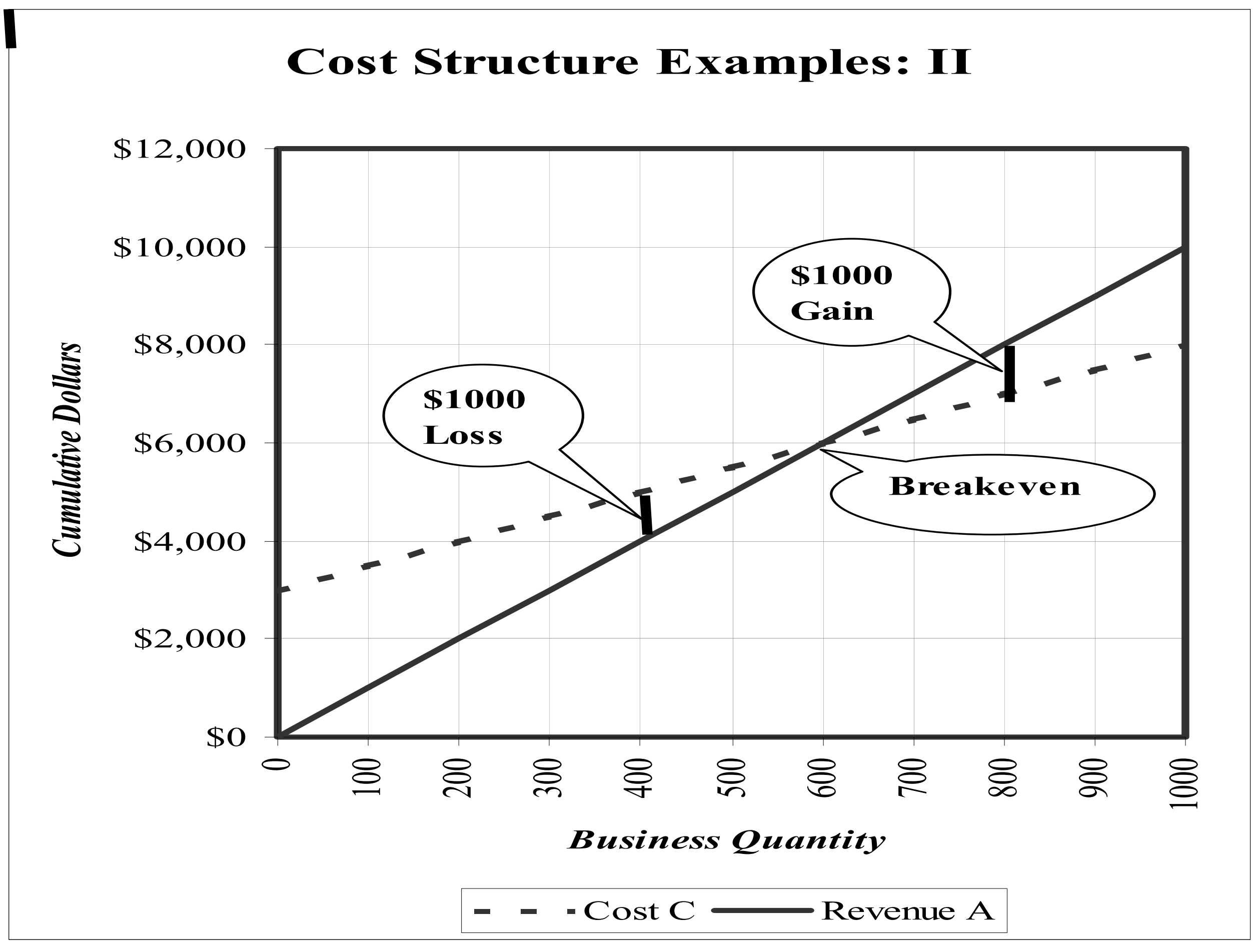
Figure D



Understanding these cost/output relationships is critical to establishing sound pricing policies for a Fund business. In most cases, before creation of a Fund business, the outputs of an administrative activity have been provided free of charge to program customers. However, once a chargeback mechanism like the Fund is in place, these program customers face new and higher prices and can be expected to look for ways to reduce consumption and spending.

Figure E illustrates the effects of alternative customer responses. The axes are the same as in Figure D but we have added a Cost C function (dotted line) that entails a mix of fixed and variable costs. We have also added a revenue function (solid line) that is patterned after the variable cost function in Figure D. That is, Figure E assumes that the business collects $10 for each unit of output. When the business sells exactly 600 units at $10 each, its costs and revenues are identical at $6000, and this point is marked as "Breakeven" on Figure E. However, if the customer response to a $10 unit price is to reduce sales to 400 units, the business experiences $4000 in revenue but $5000 in costs. This position is labeled as "$1000 Loss" on Figure E. Conversely, if an administrative program has effectively been rationing its 600 units of output and customers actually demand 800 units at $10/unit pricing, the business has $8000 in revenue and $7000 in expenses – the position denoted as "$1000 Gain" on Figure E.

Figure E



<u>So What?</u>

In some Federal agencies, notably the Department of Defense, Congress appropriated funds to create a "corpus", or cash reserve, for the working capital fund. Any gain or loss of a business line in one year is reflected immediately by an increase or decrease in the cash corpus of the fund. Then, prices are adjusted in the subsequent year to more nearly achieve a breakeven (earnings=expenses) condition, restoring the cash corpus to its original position.

The DOE Working Capital Fund legislation authorized appropriations to create such a financial reserve, but DOE has never sought or received appropriations expressly for that purpose. However, even new WCF businesses will likely have assets (inventories, uncosted balances of appropriations, etc.), and there have also been capital contributions to the Fund, primarily from the parent organizations of the Fund businesses. Further, the Board and the Fund Manager have flexibility in deploying customer cash advances and accumulated cash reserves of businesses. Nevertheless, there are distinct limits on the ability of a single business or the Fund overall to sustain losses, and that explains the emphasis that is placed by the Board and the Fund Manager on quarterly financial reviews of each business. If a Fund business sustains two consecutive quarters of financial losses, the Manager is obliged to create a working group to provide the Board with options that could include (a) reducing or terminating business operations, (b) changing pricing policies, or (c) identifying alternative sources of funds.

While there are no guaranteed ways to avoid business financial problems, a business manager can improve the chances of success through the following types of measures:

(1) Match the revenue and cost structures wherever possible, so that earnings and expenses more nearly fluctuate in the same directions.

(2) Be sure to have identified all cost elements before the pricing policies are discussed with the Board.

(3) Seek to convert what may now be fixed costs into variable costs:
   A. Consider use of part-time or temporary employees;[23]
   B. Identify other uses or users for specialized equipment; and
   C. Build flexible terms into contracts or use shorter-duration contracts, to allow more flexibility in spending levels.

(4) Develop "early warning" systems for changes in customer demand, including:
   A. Frequent meetings with customers;
   B. Trend analyses to reveal emerging patterns; and
   C. Service level agreements or other "ordering" provisions that stabilize customer commitments.

(5) Use time-lagged variables, rolling averages, and other ways of giving the business an opportunity to adjust to demand changes.

[23] Note that an individual can be a part-time resource of a WCF business while still holding a full-time position, whether as a contractor or a Federal employee. This is done by charging only a part of the time to the Fund business, with the remainder being funded by other appropriations or customers.

C. Learning and Growth

The "Learning and Growth" perspective focuses on the need to develop human and informational resources in order to sustain or improve current organizational performance in the future.

Human Resources

The two aspects of human resources management that are associated with conversion of an administrative activity to a Working Capital Fund business are (i) definition/delineation of "the business" and (ii) training employees in business skills, including financial management, process improvement, and customer communication. If Congress accepts the concept of inclusion of Federal employee salaries and related expenses in the Fund, the definition of which employees are delivering goods and services as part of a particular business or business segment will become critical to the accurate and timely reporting of business financial performance. However, even if employee salaries are not included in the Fund, a careful delineation of **who** is employed in the business is important in defining what goods and services are to be provided.

In some cases, multiple employees are involved on a part-time basis in running an administrative operation, and if a continuation of this practice is believed important to obtaining the correct skills, part-time participation is not necessarily wrong. However, some agencies have found that employees dedicated to, and whose performance is evaluated in conjunction with, a particular business are more likely to have the incentive and the perspective to improve efficiency and make other beneficial changes to the business.

For example, the Pacific Southwest Reinvention Lab of the U.S. Forest Service built its Working Capital Fund based on entrepreneurial proposals from individual employees and small groups of employees. The Lab operates much a like a venture capital fund that helps these employees start and sustain a small business, and the directory of businesses identifies an employee as the "owner" of each enterprise.[24] Indeed, the Forest Services uses a training model to give interested employees a basic foundation in business management, culminating in the development of business plans that are considered for financing. See Appendix I for the USFS outline of a "Business Prospectus" to be prepared by candidates for its Working Capital Fund. Most of the topics dealt with in this outline have parallels in the Jupiter/Booz-Allen Hamilton outline of a business plan in Appendix H.

Periodically, the Fund has offered training to employees and even customers, since the competent communication between customers and business line employees is ultimately the key to making the Fund activity a success. The USDA Graduate School offers a good Working Capital Fund course, but it is fairly heavily oriented to the specific provisions of Department of Defense Working Capital Funds. The Grad School has been willing to tailor a

[24] See http://www.fs.fed.us/reinvention/enterprise/enterprise_business/active/!active_enterprise_units_summary.htm

course to the DOE fund practices, and other organizations also have worthwhile classes in setting user fees, activity-based-costing, and other aspects of business management. During FY 2003, the Fund Manager has established a working group to examine the training requirements for employees of current businesses, and the Fund staff invites inquiries into the types of courses that are available.

A primary consideration for a new business should be to identify its Business Line Manager and/or its Business Line Fund Manager so that he/she can obtain training, including the on-the-job experience of developing the initial business plan. The person designated as the Business Line Fund Manager will need to be able to perform at least the following kinds of functions, either personally or through a subordinate:

- Understand the technology employed by the business line;
- Define the cost structure of the business;
- Establish and maintain B&R codes to identify and track obligations and costs;
- Create accrual documentation;
- Plan capital replacement and, as needed, track depreciation and inventory transactions;
- Monitor spending and earnings in DISCAS and compare DISCAS records to managerial accounting systems, to provide necessary adjustments to the Fund Manager at quarterly reviews;
- Formulate an annual budget;
- Provide monthly billing reports to the Fund Manager on a timely basis by tracking customer demand in accordance with the pricing policies enacted by the Board for the business.

Information Technology

Administrative activities typically use information technologies to deliver services, so there are IT system development and operation features of an administrative organization. Very often, transaction-based administrative systems will capture, by customer organization, the basic information that will be needed to prepare monthly billing reports to the Fund Manager. Sometimes, these data will be collected for individuals, and then the Fund business needs to access departmental systems that trace the individual to their parent organization, for purposes of billing mission program customers. For example, long distance telephone calls charges are tracked first to a telephone instrument, then to an employee to whom the phone is assigned, then to the organization to whom the employee is assigned.

It is possible that the Board may adopt, especially for a new business, a more simplified pricing policy that is not linked immediately to the existing transaction-based administrative systems of the business. In the past, the Board has admonished businesses not to propose pricing policies that required major new investments in systems simply to sustain the billing process. Therefore, a business may need to become facile with the use of other DOE corporate systems to collect and process billing allocation data.

It is important to ensure that, at the time the Board sets the pricing policy, there is a clear understanding by all parties to the methodologies that are going to employed in collecting and interpreting billing data. The individual business is responsible for ensuring the clarity of the operational definition of the information to be used and for arranging the relevant data to be produced in a timely manner.

D. Internal Business Process Perspective

A great deal has been written over the past decade on business process re-engineering, business process improvement, streamlining, and the like, and we will not replicate that literature here. A Working Capital Fund business is under essentially the same imperative to work "faster, cheaper, better" as any administrative operation. However, "Best in Class" is not simply a theoretical vision of the organization, but also possibly a practical prerequisite to survival, to the extent that the organization produces goods and services that could in theory be obtained from other suppliers. The Office of Management and Budget is championing management concepts that could require certain support functions to be subject to competition. In some cases, this means "competitive sourcing" under the terms of OMB Circular A-76, but in other cases, it may mean competition between or within agencies to have services performed by the Federal organization best able to perform those functions in a cost-effective manner. This means that benchmarking is a key feature of WCF business planning: How are other agencies performing the same business function(s) and how well are they doing in managing their processes? Can we steal some ideas that will improve our operations at DOE.

Most Federal agencies have Working Capital Funds, though agencies differ widely in terms of which funds perform which administrative services. Even when two agencies perform similar services, their pricing policies may vary widely. The Department of Energy sponsored, in 1999, a survey of other agency funds, with respect to the scope of services provided. Other agencies, notably EPA and the CIA, have undertaken similar surveys, and the Working Capital Fund office expects to be receiving some of the outputs of such surveys. Also the Fund staff have lists of working capital funds in other agencies, along with selected web site references. Later in 2002, the Fund staff expects to complete a benchmarking guide that provides references for the fee-for-service activities of other Federal agencies.

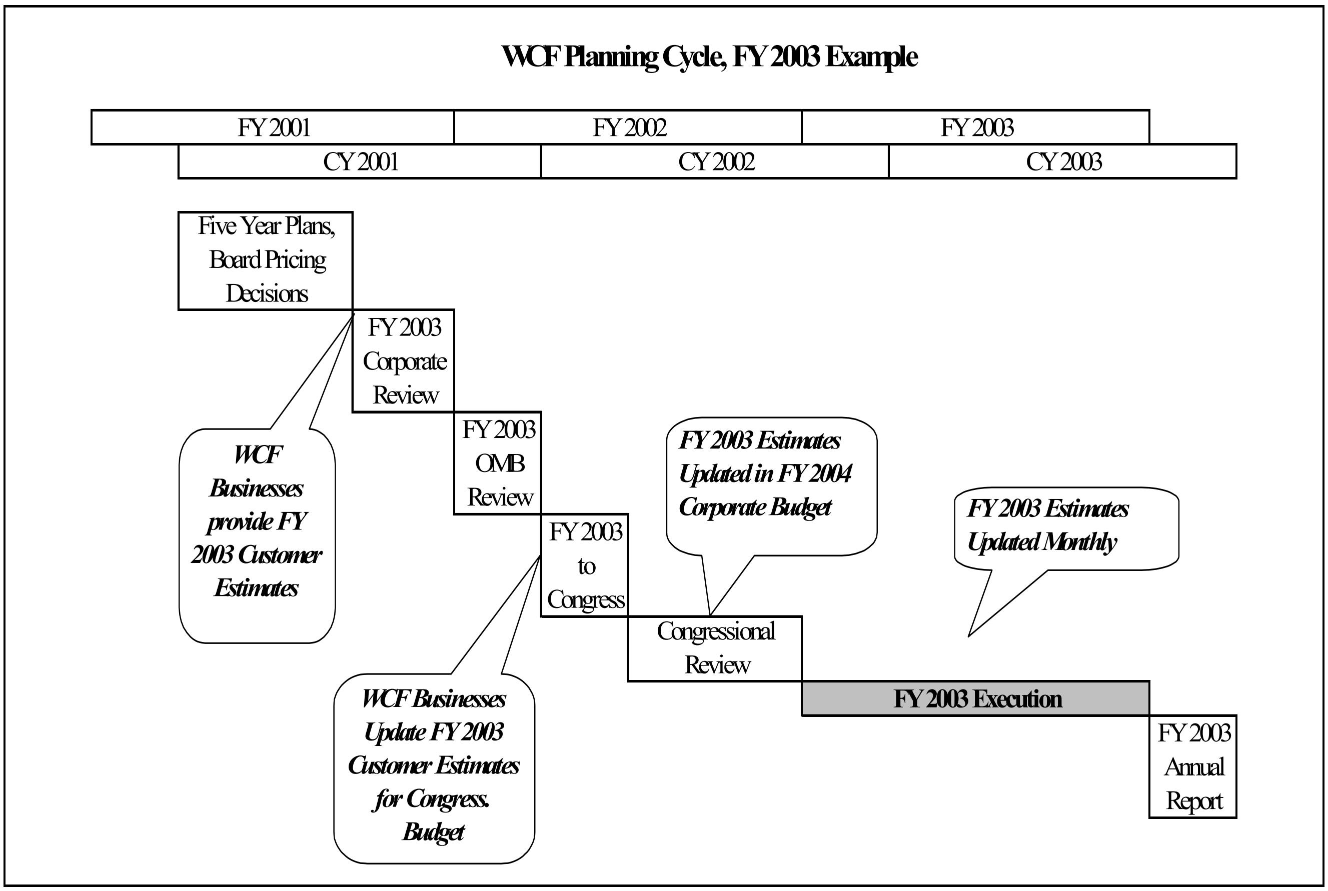
SECTION V

Key Management Cycle Events

The purpose of this section is to familiarize business managers with certain key events in the Working Capital Fund management cycle, to enable them to anticipate the need to obtain information and to steer them toward available resources.

Figure F provides a macroscopic overview of the management cycle for FY 2003, starting during calendar year 2001 when business plans are prepared and when customers are provided FY 2003 estimates for use in their budgets. The Figure illustrates that customers have been provided with at least three detailed estimates of their FY 2003 requirements before the FY 2003 execution year actually begins. During the year, estimates are reviewed monthly.

Figure F



Key Event #1: Out-Year Forecasts

By early May of CY 2001, businesses were expected to provide customer-level projections of FY 2003 billings, based on Board-approved pricing policies. This event cycle repeats for future years, such that in May 2003, businesses will be expected to provide customer-level projections of FY 2005 billings, including an update of FY 2004 estimates. The purpose of these estimates is to provide sound information for use by customer organizations in planning their own budgets.

There is no requirement for customers to use this information. Indeed, the CFO budget guidelines typically call on customer organizations to use their best judgment about possible changes in consumption patterns and supply sources. Among other things, there are some administrative activities in the Fund for which customers can choose whether to use the Fund business as a vendor or whether to obtain services directly from a contractor or another Federal agency. Also, customers may be aware of pending organizational or other changes that affect the level of consumption of certain services. Accordingly, customers may be aware of decisions, trends, or specific events that will cause their billings for a particular business line to be markedly higher or lower that the forecast of the business line itself. Nevertheless, the Fund Manager and the businesses are accountable for providing reliable estimate to customer organizations, with enough detail and explanation to allow the customer to make an informed choice regarding prudent amounts to include in the Corporate Budget Review cycle.

The Working Capital Fund billing forecasts are published by the Fund Manager and staff in the form of a memorandum to program office resource managers, and these forecasts are also included on the WCF Home Page. In many cases, notably those involving frequent recurring consumption such as telephone calls, supply store purchases, and the like, the forecasts are based on fairly straightforward extrapolations from patterns of actual observed behavior by customers. Therefore, in May 2003, for example, one would expect some of the FY 2005 estimates to be based on the most recent annualized billing estimates for FY 2003, based on consumption patterns in the first 6-7 months of that fiscal year. Since annualized FY 2003 estimates are generated each month as Table III in the monthly published bill, the primary role of the business line managers is to advise the Fund Manager on whether a simple extrapolation of current consumption appears to be a reasonable method.

In other cases, there may be clear reasons to depart from simplified extrapolations because of known or projected cost changes by WCF vendors. Examples include the inclusion of announced GSA rent changes in Building Occupancy forecasts or changes in USPS postal charges. In these instances, it is the responsibility of the business line to alert customers to significant price increases or decreases in such business segments.

Finally, there may be instances in which a business line is undergoing major changes, possibly entailing the curtailment of a business segment, the addition of new business segments, or increases or decreases in prices to bring price/cost relationships into line.. An examination of Figure F reveals that the event preceding the issuance of budget guidance is the completion of a 5-year business plan and, where needed, obtaining Board action on pricing policy changes. One key purpose of the 5-year business plan is to anticipate major changes in customer demand, supplier costs, or technology, so that the business can advise the Board of the need for changes in pricing policies. This analysis needs to be completed early enough in a calendar year to afford time for the Board to consider pricing policy options before the customer billing projections are published.

It should be noted that business-line-by-customer information generated at Key Event #1 is not used only to inform individual customer organizations about their likely WCF budget requirements; this same information is used to prepare WCF budget documents for the Corporate Review, OMB Review, and Congressional Request cycles. Since the WCF is an internal revolving fund of the Department, with no substantial net effect on DOE budget totals, WCF budget documents use customer billings as the principal measure of financial performance of the businesses. With rare exceptions, the budget advice provided to customers is the same as the information used by DOE senior management in describing trends and requirements in the overall budget process.

Key Event #1 Synopsis: Where is the information?

In order to provide reliable budget estimates for customers, a business line manager needs to consider the following:

- Trends in business line consumption, from background materials in the business line 5-year plan;
- Cost trends from business line records or from quarterly summaries provided by the Fund Manager (discussed further below);
- Pricing policies of WCF vendors, particularly for major cost elements affected by decisions taken in other Federal agencies.
- Business line consumption **at the customer level** from current year billing materials, prior year summaries, etc., all maintained on the WCF Home Page.
- Where the PDF files from the WCF Home Page are inadequate, due either to lack of detail or because the business line is seeking historical information in word processing or spreadsheet format, the WCF staff maintains MS Word, MSExcel, and MSAccess files on a dedicated server and can forward selected files to business line staff for use in completing forecasts.

Subsequent Customer Budget Estimates

Figure F describes four sets of occasions for providing customers with budget advice and information, but this manual focuses on only the first of those occurrences. In form, the subsequent reestimates of budget requirements are very similar to the Key Event #1 description above, in terms of information needs and sources, so we will shift below from the formulation stage to the execution process. At each successive formulation stage noted on Figure F, both the business lines and the customers have more, and more up-to-date, information on which to base estimates.

It should be noted that, from a customer perspective, it is very important to get the budget forecasts done well before the Corporate Budget Review process starts, rather than have significant changes occur during the budget process. Business managers need to anticipate the need for pricing policy changes at an early date, to allow for timely Board action on pricing policy changes in advance of the Corporate Budget Review process. Once DOE budget allowances have been developed, customer organizations have to absorb the impacts of pricing policy changes, and the Board has been reluctant to allow changes late in the budget formulation cycle.

Execution-Stage Events

Figure G on the following page provides a simplified overview of the FY 2003 Working Capital Fund execution process. The process diagram emphasizes the importance of the fiscal quarter, during which the following events typically occur:

Consumption (Key Event #2): This is the period of customer behavior on which the monthly billing system is based.

Billing (Key Event #3): While shown on Figure F on a quarterly basis, billing in fact occurs on a monthly basis.

Accruals (Key Event #4): At the end of the quarter, but before financial reports are prepared, businesses identify the costs which they have incurred, but for which contractor invoices have not yet been approved for payment (and for which invoices probably have not been received).

Financial Reports (Key Event #5): These are Excel tables supplied to businesses after accruals are received, to indicate how the DISCAS system will reflect quarterly activities.

Business Reviews (Key Event #6): Each quarter, the Fund Manager meets with each business manager to review the Financial Reports, make corrections and adjustments where needed, and identify problem areas that need to be discussed with the Board.

Report to Board (Key Event #7): Under current Board procedures, the Fund Manager must provide a quarterly financial report to the Board.

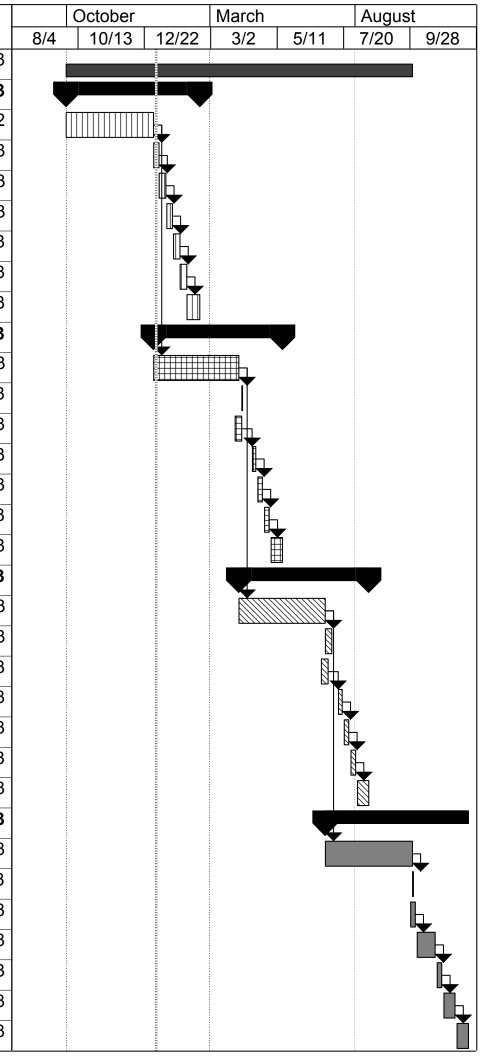
Board Meeting (Key Event #8): While a Board meeting can occur at any time, the Board typically meets four times a year to receive and discuss the Fund Manager’s quarterly report.

Each of these events is discussed in turn following Figure G.

02/12/2003

Figure G
FY 2003 Working Capital Fund Execution Process

ID		Task Name	Duration	Start	Finish
1		Fiscal Year 2003	261 days?	Tue 10/1/02	Tue 9/30/03
2		**Quarter I**	**101 days?**	**Tue 10/1/02**	**Tue 2/18/03**
3		Quarter I Consumption	66 days?	Tue 10/1/02	Tue 12/31/02
4		Quarter I Billing	4 days?	Wed 1/1/03	Mon 1/6/03
5		Quarter I Accruals	5 days?	Tue 1/7/03	Mon 1/13/03
6		Quarter I Financial Reports	4 days?	Wed 1/15/03	Mon 1/20/03
7		Quarter I Business Review	5 days	Wed 1/22/03	Tue 1/28/03
8		Quarter I Report to Board	5 days	Wed 1/29/03	Tue 2/4/03
9		Quarter I Board Meeting	10 days	Wed 2/5/03	Tue 2/18/03
10		**Quarter II**	**98 days?**	**Wed 1/1/03**	**Fri 5/16/03**
11		Quarter II Consumption	64 days?	Wed 1/1/03	Mon 3/31/03
12		Quarter II Billing	1 day?	Fri 4/4/03	Fri 4/4/03
13		Quarter II Accruals	5 days?	Fri 3/28/03	Thu 4/3/03
14		Quarter II Financial Report	4 days?	Tue 4/15/03	Fri 4/18/03
15		Quarter II Business Reviev	5 days	Mon 4/21/03	Fri 4/25/03
16		Quarter II Report to Board	5 days	Mon 4/28/03	Fri 5/2/03
17		Quarter II Board Meeting	10 days	Mon 5/5/03	Fri 5/16/03
18		**Quarter III**	**99 days?**	**Tue 4/1/03**	**Fri 8/15/03**
19		Quarter III Consumption	65 days?	Tue 4/1/03	Mon 6/30/03
20		Quarter III Billing	5 days?	Tue 7/1/03	Mon 7/7/03
21		Quarter III Accruals	5 days?	Fri 6/27/03	Thu 7/3/03
22		Quarter III Financial Repor	4 days?	Tue 7/15/03	Fri 7/18/03
23		Quarter III Business Revie	5 days	Mon 7/21/03	Fri 7/25/03
24		Quarter III Report to Board	5 days	Mon 7/28/03	Fri 8/1/03
25		Quarter III Board Meeting	10 days	Mon 8/4/03	Fri 8/15/03
26		**Quarter IV**	**109 days?**	**Tue 7/1/03**	**Fri 11/28/03**
27		Quarter IV Consumption	66 days?	Tue 7/1/03	Tue 9/30/03
28		Quarter IV Billing	1 day?	Wed 10/1/03	Wed 10/1/03
29		Quarter IV Accruals	5 days?	Mon 9/29/03	Fri 10/3/03
30		Quarter IV Financial Repor	15 days	Mon 10/6/03	Fri 10/24/03
31		Quarter IV Business Revie	5 days	Mon 10/27/03	Fri 10/31/03
32		Quarter IV (Annual) Report	10 days	Mon 11/3/03	Fri 11/14/03
33		Annual Board Meeting	10 days	Mon 11/17/03	Fri 11/28/03



Monthly, Quarterly, or Annual?

Figure G and the balance of this section focus on quarterly events, even though some events (billing) occur monthly and others (Annual Report) occur only once a year. **It should be understood that the focus of Working Capital Fund execution management is on the full fiscal year**. Program office customers are interested in part-year (monthly, quarterly) information primarily because this information has implications for full-year requirements and affords the opportunity to make course corrections to alter spending patterns if needed. Fund management criteria in the organic legislation, in congressional report language, and in the Board financial policies are also geared toward the full fiscal year. To be sure, the Fund Manager is responsible for addressing financial losses on a quarterly basis, but monthly and quarterly financial results are relevant primarily because of the trends they illustrate for the fiscal year as a whole.

Key Event #2: Consumption

Consumption behavior is plotted on Figure G largely to illustrate the relationship between the timing of consumption and various other business activities of the Fund, including billing. Depending on the nature of the service or the pricing policy, consumption can be measured as a daily, monthly, quarterly or annual event. It can be an explicit activity such as a discrete purchase from a supply store or agreeing to the closeout of a particular contract. Alternatively, consumption can be more passive or implicit, such as retaining a phone connection that becomes the basis for distribution of infrastructure charges or receiving external mail that becomes part of the mail security charge. In general, the pricing policy criteria favor consumption measures that permit informed customer choice, but there are limits on the resources that can be devoted to the counting or other recording of customer behavior.

Nearly all the information available to a business regarding consumption of its goods and services derives from the business itself and the systems that have been installed to implement the Board's pricing policies. Such systems need to be capable of capturing not only the volume of consumption but also the identity of the customer. One way this can be done is by assigning or linking individual customer employees to the consumption and then, through DOEInfo, tracing back that employee to his/her parent organization. Examples of this consumption measurement include the assignment of telephone number (hence connections, calls, and other transactions) to individual employees or the use of security badges as identification in the supply stores. Another way is to have the customer organization sign a service agreement, such as a space allocation, that attributes resource requirements to an organizational unit rather than to a specific employee.

In some cases, the Board has adopted pricing policies with time lags, such that organizational behavior in period A becomes the basis for resource requirements in period B. The advantages of this approach are (i) that it gives the business time to record and organize the consumption information before the billing is prepared and (ii) the consuming organization can be given more certainty and advance knowledge of its current charges. The disadvantage is that it does not provide the customer with a clear real-time cause-and-effect linkage between behavior and cost.

In other cases, the Board has used a more indirect approach to allocating costs, such as the use of start-of-year organizational employment levels as the basis for allocating payroll charges for the full year. Another example is that the billing for certain electronic services employs the same methodology as the rent of space. In these instances, the business line is not directly responsible for the collection of the data on which the organizational bills are based. However, it remains the responsibility of the business line to know how this "consumption" is being calculated and to identify substitute measures that may be more appropriate.

Key Event #3: Billing

Every month, the Fund Manager issues a bill to every customer, covering charges levied for the organizations use of business services during that month[25]. When, as in the case of the supply store, there are specific individual charges that need to be aggregated, the typical practice is to have a billing cutoff a day or two before the last business day of the month, to allow time to prepare electronic files. The exception is for the month of September, where the billing cutoff coincides with the end of the month and the fiscal year.

Some businesses have pricing methods that do not require billing in each month because customer organization allocations are known for longer (quarterly or annual) time periods. Subscriptions for use of the On-Line Learning Center are billed quarterly and some mail infrastructure charges have been billed annually in the past.[26] In some cases, where billings are dependent on availability of information from vendors, such as telephone usage, there are multi-month time delays in billings up to the end of the fiscal year, when estimated bills are issued for the last two months. This variety in consumption-billing relationships requires close coordination between the business line staff and the Fund staff, not only to issue an accurate and timely bill but also to explain billing coverage to customers.

Figure H depicts the steps of the billing process, using the month of December as the "consumption period" for which the bill is being prepared. The following is a description of each ensuing task.

Templates:

Toward the end of the consumption month, the Fund staff sends each business line[27] an e-mail message attaching a billing template that is an MSExcel file derived from an MSAccess database. This file has pre-printed information identifying customer organizations by routing symbol, 6-digit organization code, and funding sources. For each customer, there are data fields established for each revenue item of the business receiving the template.

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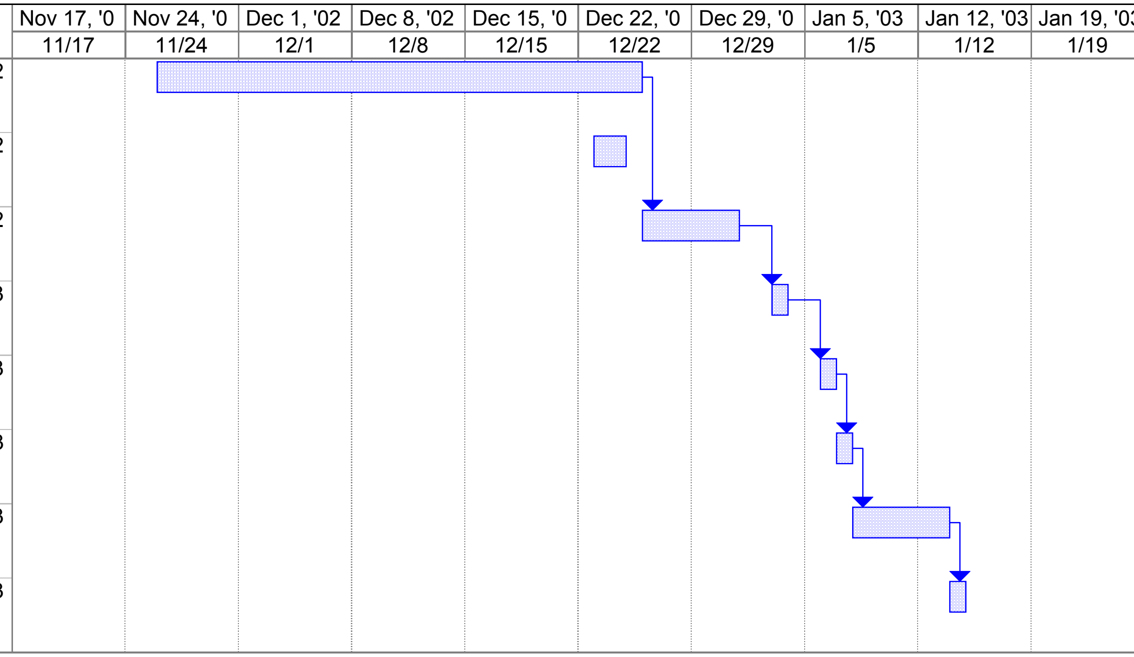
[25] Figure G implies that this is a quarterly event, but has been set up in that manner to simplify the graphic display.
[26] Starting in FY 2003, the Board authorized the Fund Manager to defer full annual billings for certain businesses, to help customer organizations cope with the protracted continuing resolution.
[27] Certain businesses have their own capabilities to generate these data directly from service delivery systems. For businesses such as Payroll and CHRIS, the calculations are performed directly by the Fund staff.

Figure H: Billing Cycle

ID		Task Name	Duration	Start
1		Consumption Period	22 days	Tue 11/26/02
2		Templates Provided	2 days	Mon 12/23/02
3		Business Line Calculations	4 days	Thu 12/26/02
4		Templates Submitted	1 day	Fri 1/3/03
5		Database Updated	1 day	Mon 1/6/03
6		Report to DISCAS	1 day	Tue 1/7/03
7		MSExcel Bills	4 days	Wed 1/8/03
8		Fund Manager Memo	1 day	Tue 1/14/03



Project: Billing Cycle
Date: Thu 2/13/03

Task | Milestone | External Tasks
Split | Summary | External Milestone
Progress | Project Summary | Deadline

Business Line Calculations:

Businesses fill in the templates with the appropriate data from their consumption management systems. Businesses can establish electronic interfaces between their consumption data systems and the billing templates or they can enter data onto the templates by hand.

Templates Submitted

After completing calculations, business line officials transmit the template back to the Fund staff as an attachment to an e-mail message.

Database Updated

The Fund staff updates the MSAccess database with the completed templates. A "text file" is then generated from the MSAccess database.

Report to DISCAS

The "text file" is e-mailed to the Capital Accounting Center for entry into the DISCAS system. If this is completed within the first 4-5 working days of the month following the consumption month (December, in our example), DISCAS reports of customers' finances for December will show the customer billings as program costs.

MSExcel Bills

Using the MSAccess database described above, the Fund staff send an e-mail to each customer attaching an MSExcel file that provides summary data regarding both billings for the month of December and cumulative billings through the end of the first quarter of the fiscal year. These files also allow customers to create pivot tables that provide even more detail on their spending patterns.

Fund Manager Memo

Following issuance of electronic bills both to the DISCAS system and to customer organizations, the Fund Manager follows up with a memorandum and a series of tables that are intended to help program organizations interpret the information they have received. Three forms of interpretation are provided:

1. The memorandum explains, for each business, the time coverage of the most recent bill. As noted earlier, billing can be for annual or quarterly periods even though bills are issued each month. Also, as particularly the case with telephone usage, when vendor bills to the department have been delayed, there are deferred billings within the fiscal year to Working Capital Fund customers, so the Fund Manager memorandum identifies the period for which costs have been recorded.

2. The memorandum provides each customer with annualized estimates of their consumption from each business line, along with a brief description of the methodology used.

3. The tables enclosed with the memorandum compare, by customer, the annualized consumption totals to (i) the most recent budget forecasts and (ii) the total advances to the Fund from that customer organization, permitting program office resource managers to determine whether additional advances are required.

Key Event #4: Accruals

The Department's policy is to maintain accounts on an "accrual" basis, such that costs and revenues are identified to the periods in which they were incurred, even if a cash receipt or disbursement occurs in a subsequent reporting period.[28] When a business knows that goods or services have been received from a contractor but corresponding invoices have not been received and paid, the business is expected to propose accrual entries for the Fund accounts so that the full value of these liabilities is reflected in management reports.

The focus of the department-wide accrual effort has been the accuracy of the year-end financial reports, especially for major contracts. The Fund produces financial reports on a quarterly basis, so accrual procedures for the Fund are more stringent than those for the Department. Toward the end of each fiscal quarter, the Fund staff queries the DISCAS system for an accounting of obligations, costs, payments, and balances in the following structure:

- Business Line
  - B&R Code
    - Contractor Identification Number

Each business line manager is thus able to review the transactions that have already been recorded in DISCAS before the end of the reporting period. Businesses are asked to identify to the Fund Manager any further costs that have been incurred that are not reflected in the DISCAS reports. The Fund Manager coordinates with the Capital Accounting Center on the recording of such further accruals in DISCAS before the close of the quarter.

Key Event #5: Financial Reports

Once accruals have been entered into DISCAS per the Key Event #4 process described above, the Fund staff downloads the updated DISCAS data into an MSExcel spreadsheet that identifies all the key information needed to satisfy the criteria for quarterly reports to the Board. These data are typically in the form of **cumulative** results through the end of the fiscal quarter, rather than results within the quarter itself. Cumulative results are used because the focus of the quarterly reporting and review process is on ensuring sound management for the fiscal year as a whole.

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[28] See Chapter 11 (Liabilities) of the DOE Accounting Handbook, accessed at http://www.mbe.doe.gov/policy/actindex/index.html-ssi .

The DISCAS data in these MSExcel spreadsheets still requires adjustment and interpretation at this point. Business line managers are provided these reports as attachments to e-mail messages to allow them to prepare for the quarterly business reviews discussed below.

Key Event #6: Business Reviews

Each business line meets with the Fund Manager or his designee in each quarter to review the financial results to date and to discuss:

- Further corrections or adjustments that are needed in financial reports before the full report is submitted to the Board;
- Explanations for any major variances in financial results, especially in the relationship of business expenses to earnings;
- Any issues that the business line management believes should be brought to the attention of the Board.

In the early years of the Fund, these sessions had to focus on corrections to financial data and projections. As businesses have matured and systems have improved, the reviews have become more oriented toward business trends, performance results, and anticipated issues.

Key Event #7: Report to Board

After the correction or adjustment of financial summaries to reflect the business line reviews, the Fund Manager prepares a consolidated report to the Board. In addition to addressing the specific matters required by the financial procedures, [29] the Fund Manager provides the Board with performance information submitted by the business lines and with discussion of pending issues. In terms of earnings/expenses variances, the report tables are expressed in millions of dollars to tenths, hence only cumulative variances of $50,000 or higher a typically discussed. Business line managers are given an opportunity to review the discussion of their businesses before the report is issues.

Key Event #8: Board Meeting

The 1996 Board charter and the 1998 financial procedures create the expectation of quarterly Board meetings. Meetings may be more frequent is Board actions are required or, in some cases, a quarterly report may be submitted to the Board for review without a face-to-face meeting.

Board meetings are open for attendance by customers and employees, and the NTEU union officials and the Office of Management and Budget examiner for the Fund have standing invitations. While Board members sit at designated places at the table, all attendees may ask to be recognized during the discussion. Depending on the topics covered, the meetings may last 90-120 minutes. Minutes are drafted and circulated to Board members for approval and are then placed on the WCF Home Page.

[29] See the discussion on pages 22-24.

Conclusion

As noted earlier, the Working Capital Fund is effectively a supplemental organization, since administrative functions that convert to Fund businesses are still subject to a full range of business laws and regulations that apply to general administrative activities. The supplemental requirements for being a successful Fund business are not easy and require management attention. So, why should an administrative organization want to be part of the Working Capital Fund?

The answer is that WCF business line managers, working with the Board and directly with customers, have been able to operate efficiently and to make innovations that improve both customer and employee satisfaction. Businesses have been allowed to cease operations that were no longer needed, but also to expand operations in quantity and quality as sought by customers. Businesses have been able to purchase new and more efficient equipment (Copying), reduce backlogs (Contract Closeout), consolidate services (common Internet Service Provider), initiate new products (On-Line Learning), reduce excess inventories (Supplies), respond to demand shifts (fewer voice lines, more LAN connections), undertake preventative maintenance (Forrestal heating and cooling systems), prepare for major changes (Payroll outsourcing), and react to emergencies (treatment of incoming mail).

Virtually all improvements that have been made by Fund businesses could, in theory, have been made by administrative organizations. However, being a Fund business means operating within an informational and organizational framework that fosters continual supplier/ customer interaction where each party has incentives to make decisions that benefit the Department as a whole.

APPENDIX A

Managerial Cost Accounting Standards

Requirement for cost accounting - Each reporting entity should accumulate and report the costs of its activities on a regular basis for management information purposes. Costs may be accumulated either through the use of cost accounting systems or through the use of cost finding techniques.

Responsibility segments - Management of each reporting entity should define and establish responsibility segments. Managerial cost accounting should be performed to measure and report the costs of each segment's outputs. Special cost studies, if necessary, should be performed to determine the costs of outputs.

Full cost - Reporting entities should report the full costs of outputs in general purpose financial reports. The full cost of an output produced by a responsibility segment is the sum of (1) the costs of resources consumed by the segment that directly or indirectly contribute to the output, and (2) the costs of identifiable supporting services provided by other responsibility segments within the reporting entity, and by other reporting entities.
Inter-entity costs - Each entity's full cost should incorporate the full cost of goods and services that it receives from other entities. The entity providing the goods or services has the responsibility to provide the receiving entity with information on the full cost of such goods or services either through billing or other advice.

Recognition of inter-entity costs that are not fully reimbursed is limited to material items that (1) are significant to the receiving entity, (2) form an integral or necessary part of the receiving entity's output, and (3) can be identified or matched to the receiving entity with reasonable precision. Broad and general support services provided by an entity to all or most other entities generally should not be recognized unless such services form a vital and integral part of the operations or output of the receiving entity.

Costing methodology - Costs of resources consumed by responsibility segments should be accumulated by type of resource. Outputs produced by responsibility segments should be accumulated and, if practicable, measured in units. The full costs of resources that directly or indirectly contribute to the production of outputs should be assigned to outputs through costing methodologies or cost finding techniques that are most appropriate to the segment's operating environment and should be followed consistently.

The cost assignments should be performed using the following methods listed in the order of preference: (a) directly tracing costs wherever feasible and economically practicable, (b) assigning costs on a cause-and-effect basis, or (c) allocating costs on a reasonable and consistent basis.

APPENDIX B

Defense Working Capital Fund Materials

Total ("True") Cost Visibility

The revolving fund system recognizes that the selling prices charged to customers by the fund should include all the costs involved in providing those goods and services. By accounting for all the various support costs, financial managers are able to arrive at a clearer, "truer" picture of what is required to carry out a particular DoD activity.

The Defense Working Capital Fund itself does not save DoD money. Instead, it increases COST VISIBILITY, giving managers the authority and the flexibility to control costs, promote efficiencies, and make more informed budgetary decisions.

One important methodology for arriving at true cost is Activity-Based Costing (also called unit cost or cost per output). This accounting approach divides the total cost of production by the total number of units of output produced. The total cost divided by the total number of outputs equals the cost per output, or unit cost. Under Activity-Based Costing, funding is earned based on the quantity of support that customers demand. For example, a flight training installation might be allocated $1 million for every student who graduated from an undergraduate pilot training program rather than a lump sum for the total number of expected graduates

The Full Cost Recovery Principle: Under the old method of accounting, none of the support or "hidden" costs were accounted for in the pricing. In the past, these costs have always been paid by other funding sources, but were not necessarily figured into the actual cost. …

Working capital funds differ from the commercial world in a number of ways, but the primary one is in the area of incentives. While "profit" is the incentive in the private sector, "breaking even" is the motivating force in working capital funds. Each working capital fund activity has the goal of achieving a Net Operating Result (NOR) of zero in a given fiscal year, which means the activity generates sufficient revenues to match the costs incurred. There is no attempt to make a profit or accumulate a surplus.

However, should a profit or a loss occur, the business area would either lower its prices in a subsequent fiscal year, or raise prices in order to realize sufficient funds to cover costs and the realized loss. Funds provided to a working capital fund activity span fiscal years and remain available in order to pay for the goods or services being provided by the activity. In contrast, appropriations are earmarked for specific purposes and have a finite period of time by which they must be used. Working capital fund activities recover all costs through the stabilized billing rates charged to customers. This includes direct costs, indirect costs, general & administrative costs (overhead), and any prior year gains or losses. Thus, though DWCF itself doesn't save money, its focus on consolidating major support and logistics functions and conserving resources does. Finding value and understanding the cost of doing business are especially relevant to the issue of Mission Readiness. Our forces will be best prepared for the challenges of the 21st Century if they have a less cumbersome support structure behind them—one that eliminates excess and promotes efficiency.

APPENDIX C

Working Capital Fund Business Structure Changes			
	FY 1997	**FY 2003**[30]	**Comment**
	(in $Millions)		
Supplies	$2.6	$0.0	During FY 2001, the original Supplies Business discontinued and was succeeded by a private concessionaire. Original business had losses from start of Fund.
PaperClips	$0.0	$3.3	
Mail	$2.2	$2.6	Services have changed little, but the Board augmented the pricing structure to permit recovery of post-9/11 mail screening costs and contractual labor cost growth.
Copying	$2.2	$2.0	The Board has authorized the business to offer new services for converting documents to electronic form.
Printing/ Graphics	$3.9	$3.2	**Business configurations have been substantially the same over the life of the WCF.**
Building Occupancy	$56.4	$58.0	
Electronic Services	$0.0	$0.0	
Telephones	$6.8	$6.8	
Desktop	$2.3	$1.2	Major decrease in IT Training and Desktop Repair segments, starting in FY97, partially offset by higher infrastructure fees.
Network	$3.1	$3.5	**Business configuration stable, except for addition of common Internet Service Provider in FY 2001.**
DOENet	$0.0	$2.7	New segment added during FY 2001
Contract Closeout	$0.4	$0.8	**Configuration and prices unchanged since start of Fund, but customer demand has grown.**
Payroll	$0.0	$3.1	New business added in FY 1998. Will change when outsourced to DFAS.
CHRIS	$0.0	$2.2	New business added in FY 2002.
EIS	$0.0	$0.0	Business added in FY 1999, withdrawn after FY 2000 for lack of customers.
Audits	$9.1	$0.0	Business withdrawn in FY 1998 so customers could use “program” versus “program direction” funds.
On-Line Learning	$0.0	$0.3	Business added in FY 2002
Total	$89.0	$89.6	

[30] FY 2003 estimate in FY 2004 Congressional request.

Appendix D

Excerpts From the 2001 Evaluation of the Working Capital Fund

As the table below demonstrates, before accounting for inflation effects, the average annual cost of continuing businesses in the Fund was lower during the five years of Fund operation than in the four years (FY 1993-6) before the Fund was created. Specifically, the average annual costs in FY 1993-96 for all continuing businesses was $86.0 million, whereas the five-year average for Fund billings to customers was $77.7 million, a reduction of $8.3 million per year, or nearly 10 percent. Over a five-year period, total reductions would be $41.5 million.

Average Annual Cost Patterns by Business Area ($ Millions)

	Average Annual Costs, FY 1993-96	Average Annual Costs, FY 97-2001	Reduction ($Millions)	Percent Reduction
Admin. Services	$12.7	$10.8	$1.9	15%
Building Occupancy	$58.5	$55.4	$1.9	5%
IT Services	$14.8	$11.5	$3.3	22%
Total	$86.0	$77.7	$8.3	10%

While all three sets of businesses showed reductions in costs between the pre-WCF and WCF periods, these average annual costs decreased by different amounts and proportions. The largest cost reduction, in both absolute and percentage terms, has been in IT services.

The OMB deflator series for Federal program costs establishes a cost index of .97 for the FY 1994-5 period, the mid-point of the four –year historical period. The comparable index for the FY 1999 mid-point of the five-year Fund period is 1.062, reflecting a 9 percent overall inflation rate between the two periods under analysis. Adjusting for inflation effects, the aggregate WCF constant-dollar cost reduction increases to nearly $15 million per year.

APPENDIX E

Congressional Expectations

From House of Representatives Report 107-112, Energy and Water Development Appropriations Bill, 2002, June 26, 2001, page 121

"Working Capital Fund The Department is using a charge-back program similar to a working capital fund which charges benefiting programs and organizations with administrative and housekeeping activities traditionally funded in a central account. The Committee continues to support this, but wants to reiterate its expectations that:[31]

no salaries or other expenses of Federal employees may be charged to the fund;

Departmental representation on the Board establishing the pricing policies should be broad-based and include smaller organizations;

the pricing policies used must be sound and defensible and not include added factors for administrative costs;

the advanced payments at any time may be no more than the amount minimally required to adequately cover outstanding commitments and other reasonable activities; and

a defined process must be established to dispose of excess advance payments (accumulated credits).

Additionally, it is the Committee's expectation that the fund manager will ensure that the fund will neither be managed in a manner to produce a profit nor allow the program customers to use the fund as a vehicle for maintaining unencumbered funds.

"The working capital fund should be audited periodically by the Department's Inspector General to ensure the integrity of the accounts, and the Committee expects to be apprised of any recommendations to improve the charge-back system."

[31] Note that the text of House Report 107-112 presents this material in narrative format. We have changed the presentation to make the enumeration of congressional expectations clearer.

APPENDIX F

WCF Pricing Policy Summary, Start of FY 2003			
Business/Segment	**Summary Pricing Policy**	**How Customers Can Save Themselves Money**	**How Customer Incentives Can Save DOE Money**
Supplies (Paper Clips)	Actual costs charged at store.	Reduce use of supplies	Reduce use of supplies
Mail			
Internal Distribution	$1.3 million distributed per mail stop	Reduce no. of stops, do own local sorting.	Reduce own contractor staff.
Mail security	$149,000 distributed based on incoming mail.	Encourage electronic messages	Over time, reduce security costs
Express mail labor	$140,000 distributed based on express mail incoming and outgoing.	Reduce use of express deliveries.	Over time, reduce labor costs
USPS outgoing labor	$184,000 distributed based on outgoing USPS mail.	Reduce use of USPS mail.	Over time, reduce lanbor costs
External	Actual USPS meter or FEDEX charges	Reduce outgoing mail.	Reduce outgoing mail.
Secure Messenger Service	Negotiated cost distribution with major users.	NA	NA
Copying			
Central copiers	$.028 per page	Reduce copies	Reduce copies
Convenience copiers	Actual lease/maintenance cost plus $.015/copy (paper)	Reduce copies, use central copiers,	Reduce copies, copier rentals, clerical staff
Color copies	$.50 per page	Reduce copies, use B&W	Reduce copies, use B&W
Digitization	Negotiated arrangements	Reduce file space, records storage fees, etc.	Reduce file space, records storage fees, etc.
Printing and Graphics			
Direct Printing	Pass-through of GPO charges	Reduce quality/ quantity of printed goods	Reduce quality/quantity of printed goods
Overhead	% of base period actual usage		
Stationary	Direct charge for stationary	Reduce stationary use	Reduce stationary use
Specialty graphics	Direct charge	Cut specialty orders	Cut specialty orders
Building Occupancy			
Basic operations	Annual lease based on GSA sq. footage values; pro rata allocation of common areas	Reduce space occupied by the organization	Reduce DOE's use of commercial space outside FSTL and GTN
HQ-wide Improvements	$3 million pro-rated by basic rent distribution	NA, except vote on for priority improvements	NA, except fund most important improvements
Local alterations	Pay direct costs for improvement	Minimize local improvements	Minimize local improvements

Business/Segment	Summary Pricing Policy	How Customers Can Save Themselves Money	How Customer Incentives Can Save DOE Money
Telephones			
HQ Infrastructure	$5 million/year distributed monthly on the basis of telephone lines	Reduce organization's number of telephone lines	NA
Local calls	Local charges distributed based on no. of "Dial 9" calls	Reduce calls.	NA
Long Distance calls	Pass-through of GSA FTS 2001 charges to organization	Reduce long-distance calls. Use e-mail	Reduce use of long-distance
Network			
HQ WAN plus ISP	$3.5 million distributed based on no. of LAN connections	Reduce number of LAN connections	NA
DOENet	$2.7 million distributed based on % of usage in prior 6 months, with CHRIS usage billed by employee	Reduce usage and reduce Federal staff	NA

Desktop			
Infrastructure	50% of Help Desk and assisted workstations distributed on the basis of inventory of workstations	Reduce no. of workstations	NA
Repair	Materials and Time ($75/hr)	Reduce repairs. Purchase warranties	Reduce contractor labor for repair
Contract Closeout	Charge by the number and type of instruments closed out	Reduce number of instruments; use more streamlined procurement methods (fixed price vs cost-type)	Limit contractor labor for closeout. Return balances to DOE
Payroll and CHRIS	Annual charge based on number of employees on-board at SOY	Limit number of employees. Avoid duplicate system costs	Limit no. of employees. No immediate impact on CHRIS operating costs but deters duplicate system costs. May limit DOE costs for outsourcing Payroll.
On-Line Learning			
Overhead	Distributed based on seats subscribed for prior year	Reduce no. of seats acquired.	NA
Direct	Direct charge per subscription	Reduce no. of subscriptions or reduce other forms of more expensive training	Reduce other forms of more expensive training.

APPENDIX G

Balanced Scorecard Perspectives

Customer Satisfaction: This perspective captures the ability of the organization to provide quality goods and services, effective delivery, and overall customer satisfaction. For purposes of this model, both the recipient of goods and services (the internal customer) and the sponsor/overseer (DOE) are regarded as customers of the business processes. In a governmental model, or for the major DOE contractors, the principal driver of performance is different than in the strictly commercial environment; namely, customers and stakeholders take preeminence over financial results. Recognizing that budgets are limiting factors, public organizations and the major DOE contractors have a greater stewardship responsibility and focus than do private sector entities.

Financial: In government, and with DOE's major contractors, the "financial" perspective differs from that of the traditional private sector. Private sector financial objectives generally represent clear long-range targets for profit-seeking organizations, operating in a purely commercial environment. Financial considerations for public organizations, to include the DOE's major contractors, have an enabling or a constraining role, but will rarely be the primary objective for business systems. Success for such organizations should be measured by how effectively and efficiently these organizations meet the needs of their constituencies. In government, and for DOE's major contractors, this perspective captures cost efficiency, delivering maximum value to the customer for each dollar spent.

Internal Business: This perspective provides data regarding the internal business results against measures that lead to financial success and satisfied customers. To meet the organizational objectives and customers expectations, organizations must identify the key business processes at which they must excel. Key processes are monitored to ensure that outcomes are satisfactory. Internal business processes are the mechanisms through which performance expectations are achieved.

Learning and Growth : This perspective captures the ability of employees, information systems, and organizational alignment to manage the business and adapt to change. Processes will only succeed if adequately skilled and motivated employees, supplied with accurate and timely information, are driving them. This perspective takes on increased importance in organizations, like DOE and its contractors, that are undergoing radical change. In order to meet changing requirements and customer expectations, employees may be asked to take on dramatically new responsibilities, and may require skills, capabilities, technologies, and organizational designs that were not available before.

Source: DOE Balanced Scorecard Home Page

APPENDIX H

Excerpt from Business Plan Writing Guide
Prepared for the Working Capital Fund by Jupiter Corporation and Booz-Allen Hamilton
September 29, 2000

3.1 Introduction

Your business plan should start with a short paragraph that gives readers an overview of how you see your business today, where you would like it to be in a few years, and what you plan to do in the next year to move it in the right direction.

3.2 Business Description

3.2.1 Mission

The Business Description portion of your business plan should tell readers how your business line contributes to accomplishing DOE's mission… The description should explain the purpose, products, and services of the business line and how these are related to your customers' missions.

3.2.2 Relationships

Describe the important relationships for your business. An organization chart can show how your business line fits into the DOE organizational structure. .. It is also important to identify your largest customers, key contractors, suppliers, or vendors, and other participants in your industry.

3.2.3 Changes

Describe trends or potential changes that could affect your business line or its relationships with customers, employees, vendors, or other parts of DOE. Are there predictable changes in government, DOE, your organization, or in your industry and the technologies you use that could affect your success?

3.2.4 Objectives

Finally, describe your business line's objectives and relate them to your mission in DOE, customer needs, relationships, and trends.

3.3 Customers

3.3.1 Customer Profile

Begin by describing your customers. Help the reader understand the important similarities and differences among them. Do all of them have the same needs? Do they all define "quality service" in the same way or are some more concerned with timeliness or price or responsiveness?

3.3.2 Business Profile

Describe how your customers see your organization. What do they expect from you? What do you do that helps them accomplish their mission? Are you able to provide options in price, quality, convenience, timeliness, and other important variables?

3.3.3 Customer Options

Finally, describe the purchase options your customers have and how they make buying decisions. Can your customers do the work themselves, go to a different vendor, or use a different technology (for example, deliver a message by phone, e-mail, letter, or in person)? What factors are most important in their buying decisions?

3.3.4 Objectives and Performance Measures

After describing your customers, their needs and current satisfaction level, and their decision making process, describe your objectives and goals for improving customer service. Objectives should be focused on increasing the satisfaction of your customers and their willingness to choose you as their supplier.

3.4 Finances

3.4.1 Cost Structure

Because Working Capital Fund businesses recover all their costs from customers, it is important to accurately estimate the costs.... also describe the forces that cause costs to change. Accountants talk about variable and fixed costs. Variable costs depend on how much work is done – it costs more to make 100 copies of a document than 1 copy because more paper and toner are used. Fixed costs, like office rent, are incurred even if no work is done. It will help customers understand your business if you identify fixed and variable costs. Carefully describe the assumptions behind your cost estimates. …What "hidden" costs, such as equipment depreciation or inventory consumption, need to be covered? Are there upcoming capital expenditures that need to be financed?

3.4.2 Pricing

Next describe how costs are passed back to customers and how much revenue this generates. Talk to your customers and find out how their needs are expected to change and use this information to estimate future sales and costs

3.4.3 Objectives and Performance Measures

The last part of the finance section should discuss your financial objectives and goals. Typically, financial objectives involve increasing total revenues, reducing average costs, or making capital investments. A core goal of the WCF is becoming more efficient – reducing the cost of delivering the same or better service.

3.5 Internal Processes

The Balanced Scorecard approach influencing this section of the business plan focuses on the internal process controls that are in place to ensure that your business line functions smoothly. This section can be broken down into three parts: process controls; process reengineering; and performance objectives, goals and measures.

3.5.1 Process Controls

In the process controls section, you should address the external controls affecting your operations. These can include statutory and regulatory controls, DOE Orders, and Working Capital Fund procedures…Other process controls include Standard Operating Procedures (SOPs). Describe how you keep the SOPs current and relevant to your operations.

3.5.2 Process Reengineering

The process reengineering section is a continuation of questions posed with regard to SOPs. It relates to every aspect of your business line and involves regularly reviewing your processes to ensure that you are operating effectively and efficiently…Identify technological advancements that may impact the way the line functions. Will you need to purchase new equipment or adopt new software programs to keep up with your customers' needs? How will this affect your operations.

3.5.3 Objectives and Performance Measures

The final part of the internal processes section should present your long term objectives, shorter-term goals, and performance measures that allow you to assess progress towards meetings these goals and objectives

3.6 Learning and Growth

3.6.1 Personnel Resources and Development

Describe the current skills of your staff, the commitment your business line has toward developing these skills, and the training program in place for the next year. Will turnover or retirement affect training needs? Is your business line well prepared to handle short- and long-term absences of key staff members

3.6.2 Technological Trends

How do you keep informed of technological changes and new products in your field? Describe how you discover new information, and how you integrate it into your business line. How do you make your staff and customers aware of these changes? Are you keeping pace with your industry's innovations? If you have competitors, how often do you benchmark the technologies they are employing?

APPENDIX I

U.S.F.S. Outline for a "Business Prospectus" for a New Working Capital Fund Business

Business Name:______________________________

Owner(s):__________________________________

Business Address:___________________________

Provide a one page narrative, per topic, that addresses the topic's elements:

Business Description

1. Business Concept and the Business
2. Vision and mission of your business and how it relates to that of the Forest Service and the Business Activities of the Forest Service
3. Product(s) or service(s) of your business
4. Benefits (not features) of your product(s) or service(s)
5. Business Organization: What is the organization (people) of your business Identify key personnel and their skills
6. "Owner" qualifications, education and/or credentials
7. Identify key staff and their skills
8. Discuss past successes you've had with the business and/or similar activities thereof

Business Costs and Profitability

1. Cost of your product(s) or service(s) and what you think people would be willing to pay
2. Estimate your sales projection
3. Describe any incentives or bonuses you offer to your staff
4. Economics of the Business: Describe the approximate cost to operate the business and approximately what you would need for start up capital. State the projected number of months it will take for your business to break even
5. Research and development requirements for the product(s) or service(s)

Marketing and Sales

1. Describe why people would buy your product(s) or service(s)
2. Market Research: Who are your customers
3. Market size and trends
4. Estimate your market share
5. Describe the competition and your competitive edge
6. Market Plan: Describe your plan to enter the market and any strategy to grow in the market
7. Describe your advertising strategy

Business Risk and Contingencies

1. Identify and assess risks and describe your contingency or response plan; discuss in specific any seasonal influences in your business that may affect your staffing; describe what would happen to your staff if your business folds
2. Non-billable hours (vacation, sick, holidays, enterprise support)
3. Legal or political influences or potential impacts
4. Describe dependencies your product or service may have